

## **Internal Control: A Tool for the Audit Committee**

**PURPOSE OF THIS TOOL:** Internal control over financial reporting has always been a major area in the governance of an organization, and this importance has been magnified in recent years. This tool is intended to give audit committees basic information about internal control to understand what it is, what it is not, how it can be used most effectively in the organization, and the requirements of management with respect to the system of internal control over financial reporting. Note that the primary responsibility of the audit committee with respect to internal control is the system of internal control over financial reporting.

If the company is subject to the Sarbanes-Oxley Act of 2002 (the Act), it is important that the audit committee be familiar with the final SEC rules on Section 404 of the Act addressing internal control over financial reporting. See “Management’s Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports,” [June 5, 2003, Release Nos. 33-8238; 34-47986]. The final rules are available on the SEC Web site at <http://www.sec.gov/rules/final/33-8238.htm>.

### **Internal Control Primer—Basics of Internal Control**

In 1992, the Committee of Sponsoring Organizations (COSO)<sup>1</sup> of the National Commission on Fraudulent Financial Reporting (also known as the Treadway Commission) published a document called: *Internal Control – Integrated Framework*,<sup>2</sup> which defined internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives” in three categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting, and
3. Compliance with applicable laws and regulations

Internal control can be judged as effective in each of these categories if the board of directors and management have reasonable assurance that:

1. They understand the extent to which the entity’s operations objectives are being achieved.
2. Published financial statements are being prepared reliably.
3. Applicable laws and regulations are being complied with.

The COSO Framework went on to say that internal control consists of five interrelated components as follows:

1. *Control environment.* Sometimes referred to as the “tone at the top” of the organization, meaning the integrity, ethical values and competence of the entity’s people, management’s philosophy and operating style, the way management assigns authority and responsibility, organizes and develops its people, and the attention and direction provided by the board of directors. It is the foundation for all other components of internal control, providing discipline and structure.
2. *Risk assessment.* The identification and analysis of relevant risks to achieve the objectives which form the basis to determine how risks should be managed. This component should address the risks, both internal and

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<sup>1</sup> The Committee of Sponsoring Organizations consists of the American Institute of CPAs (AICPA), the Institute of Management Accountants (IMA), the Institute of Internal Auditors (IIA), Financial Executives International (FEI), and the American Accounting Association (AAA).

<sup>2</sup> The COSO publication *Internal Control—Integrated Framework* (Product Code Number 990012), may be purchased through the AICPA store at [www.cpa2biz.com](http://www.cpa2biz.com). The proceeds from the sale of the Framework are used to support the continuing work of COSO.

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external, that must be assessed. Before conducting a risk assessment, objectives must be set and linked at different levels.

3. *Control activities.* Policies and procedures that help ensure that management directives are carried out. Control activities occur throughout the organization at all levels in all functions. These include activities like approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.
4. *Information and communication.* Addresses the need in the organization to identify, capture and communicate information to the right people to enable them to carry out their responsibilities. Information systems within the organization are key to this element of internal control. Internal information, as well as external events, activities and conditions must be communicated to enable management to make informed business decisions and for external reporting purposes.
5. *Monitoring.* The internal control system must be monitored by management and others in the organization. This is the framework element that is associated with the internal audit function in the company, as well as other means of monitoring such as general management activities and supervisory activities. It is important that internal control deficiencies be reported upstream, and that serious deficiencies be reported to top management and the board of directors.

These five components are linked together, thus forming an integrated system that can react dynamically to changing conditions. The internal control system is intertwined with the organization's operating activities, and is most effective when controls are built into the organization's infrastructure becoming part of the very essence of the organization.

Note that while the Sarbanes-Oxley Act of 2002 does specifically mention the COSO Framework, the Act acknowledges that this is not the only Framework that can be used to fulfill management's requirements about the internal control system. The Act specifically states that other frameworks may be created either within or outside the United States that may satisfy the intent of the statutes. The Act further states certain conditions that must be met in order for a framework to be considered suitable.

An effective internal control structure can actually be part of the competitive advantage of the organization.

### **Key Terms in Internal Control**

There are a few terms that you will hear frequently when discussing internal control, and these are identified and described as follows:

*Reportable condition.* Has the same meaning as the term "significant deficiency." These two terms are used to define a significant deficiency in the design or operation of internal control that could adversely affect a company's ability to record, process, summarize and report financial data consistent with the assertions of management in the company's financial statements. An aggregation of significant deficiencies could constitute a material weakness.

*Material weakness.* Defined in the auditing literature as a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

*Compensating controls.* Some organizations, by virtue of their size, are not able to implement basic controls such as segregation of duties. This apparent lack of control could be overcome through other controls, which could be expected

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to be more rigorous in this situation than in a situation where the basic control exists. This compensating control could be a permanent part of the control system, or just temporary if a basic control is not able to function for some period of time. See the section in this tool entitled “Compensating Controls” for an example.

*Section 404:* Refers to section 404 of the Sarbanes-Oxley Act of 2002, which requires management to:

1. Make a statement that they are responsible for establishing and maintaining adequate internal control over financial reporting for the company,
2. Make an assessment of the effectiveness of the internal control system as of the company’s most recent fiscal year,
3. Identify the framework used by management to evaluate the effectiveness of the internal control system over financial reporting, and
4. Make a statement that the independent auditor has issued an attestation report on management’s assessment of the company’s internal control over financial reporting.

These requirements are key in the internal control process for SEC registrant companies.

#### **What Internal Control Cannot Do**

As important as an internal control structure is to an organization, an effective system is not a guarantee that the organization will be successful. An effective internal control structure will keep the right people informed about the organization’s progress (or lack of progress) in achieving its objectives, but it cannot turn a poor manager into a good one. Internal control cannot ensure success, or even survival.

Internal control is not an absolute assurance to management and the board about the organization’s achievement of its objectives. It can only provide reasonable assurance, due to limitations inherent in all internal control systems. For example, breakdowns in the internal control structure can occur due to simple error or mistake, as well as faulty judgments that could be made at any level of management. In addition, controls can be circumvented by collusion or by management override. Finally, the design of the internal control system is a function of the resources available, meaning that there must be a cost-benefit analysis in the design of the system.

#### **Roles and Responsibilities**

Everyone in the organization has some role to play in the organization’s internal control system.

*CEO.* The CEO has ultimate responsibility and “ownership” of the internal control system. The individual in this role sets the tone at the top that affects the integrity and ethics and other factors that create the positive control environment needed for the internal control system to thrive. Aside from setting the tone at the top, much of the day-to-day operation of the control system is delegated to other senior managers in the company, under the leadership of the CEO.

*CFO.* Much of the internal control structure flows through the accounting and finance area of the organization under the leadership of the CFO. In particular, controls over financial reporting fall within the domain of the chief financial officer. The audit committee should use interactions with the CFO, and others, as a basis for their comfort level on the internal control over financial reporting.

This is not intended to suggest that the CFO must provide the audit committee with a level of assurance regarding the system of internal control over financial reporting. Rather, through interactions with the CFO and others, the audit committee should get a “gut feeling” about the completeness, accuracy, validity and maintenance of the system of internal control over financial reporting.

In a public company, the CFO and CEO are required to certify that they (among other things):

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1. Are responsible for establishing and maintaining internal controls;
2. Have designed such internal controls to ensure that material information relating to the company and its consolidated subsidiaries is made known to the CFO and CEO by others within those entities, particularly during the period in which the periodic reports are being prepared;
3. Have evaluated the effectiveness of the company's internal controls as of a date within 90 days prior to the report; and
4. Have presented in the report their conclusions about the effectiveness of their internal controls based on their evaluation as of that date;
5. Have disclosed to the company's auditors and the audit committee (a) all significant deficiencies in the design or operation of internal control which could adversely affect the company's ability to record, process, summarize, and report financial data and have identified for the company's auditors any material weaknesses in internal control; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls; and
6. Have indicated in their report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Section 404 of the Sarbanes-Oxley Act addresses management assessments of the internal control system of the company. There has been considerable discussion about the role the company's auditors can play in that process, since the auditor must then make their own report on the effectiveness of management's assessment.

The AICPA urges great caution in this area. If the company's auditors are to be involved in management's assessment, it is important to note that management must be in control of the process at all times. An important resource for management and the audit committee when addressing this issue is a speech made by Scott A. Taub, SEC Deputy Chief Accountant, "The SEC's Internal Control Report Rules and Thoughts on the Sarbanes-Oxley Act," May 29, 2003. You may find this speech on the SEC Web site at: <http://www.sec.gov/news/speech/spch052903sat.htm>

*Controller.* Much of the basics of the control system come under the domain of this position. It is key that the controller understand the need for the internal control system, is committed to the system, and communicates the importance of the system to all people in the accounting organization. Further, the controller must demonstrate respect for the system through his or her actions.

*Internal Audit.* A main role for the internal audit team is to evaluate the effectiveness of the internal control system and contribute to its ongoing effectiveness. With the internal audit team reporting directly to the audit committee of the board of directors and/or the most senior levels of management, it is often this function that plays a significant role in monitoring the internal control system.

*Board of Directors/Audit Committee.* A strong, active board is necessary. This is particularly important when the organization is controlled by an executive or management team with tight reins over the organization and the people within the organization. The board should recognize that its scope of oversight of the internal control system applies to all three major areas of control: over operations, over compliance with laws and regulations, and over financial reporting. The audit committee is the board's first line of defense with respect to the system of internal control over financial reporting.

*All Other Personnel.* The internal control system is only as effective as the employees throughout the organization that must comply with it. Employees throughout the organization should understand their role in internal control and the importance of supporting the system through their own actions and encouraging respect for the system by their colleagues throughout the organization.

### **Compensating Controls**

It is important to realize that both the design and compliance with the internal control system is important. The audit committee should be “tuned-in” to the tone-at-the-top of the organization as a first indicator of the functioning of the internal control system.

In addition, audit committees should realize that the system of internal control should be scaled to the organization. Some organizations will be so small, for example, that they will not be able to have appropriate segregation of duties. The message here is that the lack of segregation of duties is not automatically a material weakness, or even a reportable condition, depending on the compensating controls that are in place.

For example, suppose a company’s accounting department is so small that it is not possible to segregate duties between the person that does the accounts payable, and the person that reconciles the bank statements. In this case, it is one and the same person, so the implication is that there are no checks and balances on the accounts payable person, who could be writing checks to a personal account, then passing on them during the bank reconciliation process (that is, there is no one to raise the red flag that personal checks are being written on the company account).

Compensating controls could make up for this apparent breach in the internal control system. Here are some examples of compensating controls in this situation:

1. All checks are hand signed by an officer of the company, rather than using a signature plate that is in the control of the person that prepared the checks.
2. The bank reconciliation may be reviewed by the person’s manager.
3. A periodic report of all checks that are cleared at the bank could be prepared by the bank and forwarded to an officer of the company for review.

Audit committees should be aware of situations like this, and be prepared to ask questions and evaluate the answers when an obvious breach in internal control is surfaced.

### **Management Override of Controls**

Another area that an audit committee needs to focus on is the ability of management to override internal controls over financial reporting to perpetrate a fraud. Examples of techniques used by management in overriding internal controls over the financial reporting function include:

- Back dating sales documents to a prior period,
- Making adjusting entries during the financial reporting closing process, or
- Reclassing items improperly between the income statement and the balance sheet.

Some of these override techniques were used in the accounting scandals that led to the passage of the Sarbanes-Oxley Act, and have gained substantial notoriety.

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An audit committee has the responsibility to help prevent or deter a management override of controls. It is important for the audit committee to understand that there is a system to uncover an override, as well as follow-up to determine its appropriateness. Questions about management override, and the controls over management override, as well as audit steps to detect if a management override has occurred, should be addressed to the CEO, CFO, CAE, and independent auditor during the respective executive sessions with the audit committee as noted elsewhere in this toolkit.

### **Conclusion**

This primer should have given you a sense of what people mean when they refer to *internal control*. The concepts are not complex, but sometimes the application of internal control can be a challenge in an organization, depending on its size and the corporate culture. However, it is vitally important to design the system of internal control to achieve the objectives of: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.

Simply stated, at the end of the day, a strong system of internal control (both in its design and compliance) is good business.

### **Internal Control—A Tool for the Audit Committee**

The following tool, “Internal Control—A Tool for the Audit Committee,” contains questions modeled on those found in the COSO Report, *Internal Control—Integrated Framework*.

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**PURPOSE OF THIS TOOL:** This tool focuses on the five interrelated components of an internal control system, as described in the *COSO Internal Control – Integrated Framework*<sup>3</sup> publication. Refer to “Internal Control Primer—Basics of Internal Control,” earlier in this section for a discussion of the COSO components. The audit committee’s role in the internal control structure of the company focuses on internal controls over financial reporting and the various systems (human resources, computing, and other) available to support that process, and this tool is created to facilitate that role. The audit committee needs to be assured that the controls are in place and operating effectively. This can be achieved through the committee’s interaction with senior management, independent auditors, internal auditors, and other key members of the financial management team.

**INSTRUCTIONS FOR USING THIS TOOL:** This tool is created around the five interrelated components of an internal control structure. Within each component is a series of questions that the audit committee should focus on to assure itself that controls are in place and functioning. These questions should be discussed in an open forum with the individuals that have a basis for responding to the questions. The audit committee should ask for detailed answers and examples from the management team, including key members of the financial management team, internal auditors, and independent auditors to assure itself that the system is operating as management represents. Evaluation of the internal control structure is not a one-time, but rather a continuous event for the audit committee—the audit committee should always have its eyes and ears open for potential weaknesses in internal control, and should continually probe the responsible parties regarding the operation of the system. These questions are written in a manner such that a “No” response indicates a weakness that must be addressed.

<sup>3</sup> The questions in this tool are adapted from “Evaluation Tools,” Volume 2 of the *COSO Internal Control – Integrated Framework* (Product Code Number 990012), published September 1992, by the Committee of Sponsoring Organizations. It may be purchased through the AICPA store at [www.cpa2biz.com](http://www.cpa2biz.com). The proceeds from the sale of the Framework are used to support the continuing work of COSO.

COSO Framework	Yes	No	Not sure	Comments
<b>Control Environment—Integrity and Ethical Values</b>				
1. Does the organization have a comprehensive code of conduct, and/or other policies addressing acceptable business practice, conflicts of interest, and expected standards of ethical and moral behavior?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is the code distributed to all employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
COSO Framework	Yes	No	Not sure	Comments
<b>Control Environment—Integrity and Ethical Values (cont.)</b>				
3. Are all employees required to periodically acknowledge that they have read, understood, and complied with the code?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Does management demonstrate through actions its own commitment to the code of conduct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are dealings with customers, suppliers, employees, and other parties based on honesty and fair business practices?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Does management take appropriate action in response to violations of the code of conduct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Is management explicitly prohibited from overriding established controls? What controls are in place to provide reasonable assurance that controls are not overridden by management? Are deviations from this policy investigated and documented? Are violations (if any) and the results of investigations brought to the attention of the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Is the organization proactive in reducing fraud opportunities by (1) identifying and measuring fraud risks, (2) taking steps to mitigate identified risks, (3) identifying a position within the organization to “own” the fraud prevention program, and (4) implementing and monitoring appropriate preventative and detective	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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internal controls and other deterrent measures?				
9. Does the company utilize an anonymous ethics and fraud hotline, and, if so, are procedures in place to investigate and report results to the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

<b>COSO Framework</b>	<b>Yes</b>	<b>No</b>	<b>Not sure</b>	<b>Comments</b>
(See also the tool “Anonymous Submission of Suspected Wrongdoing (Whistleblowers) in this toolkit.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment—Commitment to Competence</b>				
1. Is the level of competence, and the requisite knowledge and skills defined for each job in the accounting and internal audit organizations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does management make an effort to determine whether the accounting and internal audit organizations have adequate knowledge and skills to do their jobs?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment—Board of Directors and/or Audit Committee</b>				
1. Are the audit committee’s responsibilities defined in a charter? If so, is the charter updated annually and approved by the board of directors? (See also the tool “Audit Committee Charter Matrix,” in this toolkit.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are audit committee members independent of the company and of management? Do audit committee members have the knowledge, industry experience, and financial expertise to serve effectively in their role?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are a sufficient number of meetings held, and are the meetings of sufficient length and depth to cover the agenda, and provide healthy discussion of issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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4. Does the audit committee constructively challenge management’s planned decisions, particularly in the area of financial reporting, and probe the evaluation of past results?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
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COSO Framework	Yes	No	Not sure	Comments
<b>Control Environment—Board of Directors and/or Audit Committee (cont.)</b>				
5. Are regular meetings held between the audit committee and the CFO (chief financial officer), the chief audit executive (CAE, the leader of internal audit team), other key members of the financial management and reporting team, and the independent auditors? Are executive sessions conducted on a regular basis? (See also the tool “Conducting an Audit Committee Executive Session: Guidelines and Questions,” in this toolkit.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Does the audit committee approve internal audit’s annual audit plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
7. Does the audit committee receive key information from management in sufficient time in advance of meetings to prepare for discussions at the meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
8. Does a process exist for informing audit committee members about significant issues on a timely basis and in a manner conducive to the audit committee having a full understanding of the issues and their implications? (See also the tool “Issues Report From Management,” in this toolkit.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Is the audit committee informed about personnel turnover in key functions including the audit team (both internal and the independent auditors), senior executives, and key personnel in the financial accounting and reporting teams? Are unusual employee turnover situations observed for patterns or other indicators of problems?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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COSO Framework	Yes	No	Not sure	Comments
<b>Control Environment—Management’s Philosophy and Operating Style</b>				
1. Is the accounting function viewed as a team of competent professionals bringing information, order, and controls to decision-making?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is the selection of accounting principles made in the long-term best interest of the organization (as opposed to short-term maximization of income)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are valuable assets, including intellectual assets, protected from unauthorized access and use?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Do managers respond appropriately to unfavorable signals and reports?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are estimates and budgets reasonable and achievable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment—Organizational Structure</b>				
1. Is the organizational structure within the accounting function and the internal audit function appropriate for the size of the organization?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are key managers in the accounting and internal audit functions given adequate definition of their responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Do sufficient numbers of employees exist, particularly at the management levels in the accounting and internal audit functions to allow those individuals to effectively carry out their responsibilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment—Assignment of Authority and Responsibility</b>				
1. Is the authority delegated appropriate for the responsibilities assigned?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are job descriptions in place for management and supervisory personnel in the accounting and internal audit functions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

COSO Framework	Yes	No	Not sure	Comments
<b>Control Environment—Assignment of Authority and Responsibility (cont.)</b>				
3. Do senior managers get involved as needed to provide direction, address issues, correct problems and/or implement improvements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Environment—Human Resources Policies and Practices</b>				
1. Are policies and procedures in place for hiring, training, promoting, and compensating employees in the accounting and internal audit functions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Do employees understand that sub-standard performance will result in remedial action?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is remedial or corrective action taken in response to departures from approved policies?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Do employees understand the performance criteria necessary for promotions and salary increases?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Risk Assessment</b>				
1. Does the organization consider risks from external sources such as creditor demands, economic conditions, regulation, labor relations (e.g., unions), etc.?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Does the organization consider risks from internal sources such as key employees (retention and succession planning), financing and the availability of funding for key programs, competitive compensation and benefits, information systems security and backup systems?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is the risk of a misstatement of the financial statements considered and are steps taken to mitigate that risk?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
COSO Framework	Yes	No	Not sure	Comments
<b>Risk Assessment (cont.)</b>				

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4. If applicable, are the risks associated with foreign/off-shore operations considered, including their impact on the financial reporting process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Control Activities</b>				
1. Does the organization have a process in place to ensure that controls as described in its policy and procedures manuals are applied as they are meant to be applied? Do the policy and procedures manuals document all important policies and procedures? Are these policies and procedures reviewed and updated on a regular basis? If so, by whom?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Do supervisory personnel review the functioning of controls? If so, how is that review conducted and what happens to the results? Is appropriate and timely follow-up action taken on exceptions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Information and Communication</b>				
1. Is a process in place to collect information from external sources, such as industry, economic, and regulatory information that could have an impact on the business and/or the financial reporting process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are milestones to achieve financial reporting objectives monitored to ensure that timing deadlines are met?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is necessary operational and financial information communicated to the right people in the organization on a timely basis and in a format that facilitates its use, including new or changed policies and procedures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
4. Is a process in place to respond to new information needs in the organization on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

COSO Framework	Yes	No	Not sure	Comments
<b>Information and Communication (cont.)</b>				
5. Is there a process in place to collect and document errors or complaints to analyze, determine cause, and eliminate a problem from recurring in the future?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is a process established and communicated to officers, employees, and others, about how to communicate suspected instances of wrongdoing by the company or employees of the company? Further, does a process exist to ensure that anyone making such a report is protected from retaliation for making such a report? (See also the tool entitled "Anonymous Submission of Suspected Wrongdoing (Whistleblowers)" elsewhere in this toolkit.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Monitoring</b>				
1. Do officers and employees understand their obligation to communicate observed weaknesses in design or compliance with the internal control structure of the organization to the appropriate supervisory or management personnel?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are interactions with external stakeholders periodically evaluated to determine if they are indicative of a weakness in the internal control structure? (For example, consider the frequency of customer complaints about incorrect bills.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Is there follow-up on recommendations from the internal and external auditors for improvements to the internal control system?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Monitoring (cont.)</b>				
4. Are personnel asked to periodically state whether they understand and comply with the organization's code of conduct?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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<p>5. Are personnel required to sign off, indicating their performance of critical control activities such as performing reconciliations?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<p>6. Does the internal audit team have the right number of competent and experienced staff? Do they have access to the board of directors and audit committee? Is the reporting structure in place to ensure their objectivity and independence? Is the work of the internal audit team appropriate to the organization's needs, and prioritized with the audit committee's direction?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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