POSITION PAPER

Roles and tasks related to the
Internal Control Process
in a service company.

EXECUTIVE SUMMARY

Internal Control Association
www.icib.org

About the ICIB Association

The ICIB (Internal Control – Contrôle Interne – Interne Beheersing) is an independent professional non-profit organization dedicated to the development and the promotion of sound internal control practices. The Association was created in 2008 as an independent organization and has an exclusive partnership with ICI, the Internal Control Institute in the Unites States, for the granting of personal certifications (CICS / CICP). ICIB organizes training sessions and series of events such as the yearly IC-AWARD, as well as various thematic conferences.

This document is the first release of the Position Paper. Future releases may be edited to respond to new developments or expectations. Suggestions and remarks for further enhancement of the Position Paper can be send to info@icib.org.

This Position Paper is organised around 12 Precepts. A Precept can be defined as a command or principle intended especially as a general rule of action. Symbolically, the number twelve represents a whole, a perfect and harmonious entity.

EXECUTIVE SUMMARY

Most organisations and companies, both in the private and public sectors, have over the last years been putting in place structures, procedures and resources to maintain and continuously improve the running of their business. Meanwhile, the concept of company governance has gained in maturity and functions such as general inspection, internal audits, management control and risk management have progressively taken root, enhancing the way companies and organisation carry out and control their activities.

The latest evolution in the field of company governance is commonly referred to as internal control, which, unlike internal audit or general inspection, is not a function but rather a process involving all personnel in the organisation.

The importance and relevance of internal control has, in extreme situations, been underlined by a series of cases in the past decades where a number of companies went bankrupt mainly because of major weaknesses in, or even complete absence of an internal control system. This led to a number of regulatory requirements or best practices provisions, some of them relating to the implementation of internal control in organisations.

But what exactly is internal control about?

In a top-down approach, organizations and companies need to define and continuously review their strategy, according to their internal and external environment, their vision or the perspective that the executive management or the board wishes to convey. Further on, the strategy is translated into strategic objectives that are commonly expressed and communicated to the different stakeholders (internal and external ones) through strategic plans.
Based on these strategic objectives, each entity, department or service within the organization defines operational objectives that are presented and communicated within the organization. These operational objectives are cascaded down and translated at all levels of the organization.

Complementary to this top-down approach, each and every activity in the organization should be aligned with the strategy and should contribute to the achievement of those objectives.

Indeed, all stakeholders (internal and external ones) of an organization wish and expect clear objectives to be defined and achieved in order to ensure that the organisation remains sustainable and creates value over the years.

However, organizations sometimes become aware of the non-achievement of their objectives too late, often at the end of the year and with severe consequences for their operational or financial results. To avoid this, organizations can conceive and implement a specific transversal process that makes it possible, on a permanent basis, to obtain reasonable assurance on the achievement of the defined objectives and on the ongoing adjustment of these objectives to the ever changing environment.

As can be appreciated, such a process is not a 'one-person affair' but involves all the actors of the organization, from the operational staff who execute the regular and repetitive tasks to the top management.

This transversal process or system is commonly called Internal Control.

But the need to control the activities is not really anything new. Most companies started long ago to implement different types of measures and procedures, commonly called "controls". However, a clear distinction should be made between the "Internal Control process" and these "controls". The former constitutes the main topic of this Position Paper. The latter, the controls, are to be considered as outputs of this internal control process, in the sense that they derive from a series of initiatives that are undertaken in the process to analyse the risks and decide on how they could be mastered in the most effective way.

In terms of positioning the internal control process, it is commonly accepted that no one can reasonably take on a responsibility without considering how to gain control over the underlying activity. All staff involved in the organisation becomes as such, on his level and within his responsibility, an active contributor to and actor in the internal control process.

In order to further clarify the roles and interactions in the internal control process, most organisations define three lines of defence. The first line of defence relates to everything that allows operations to be effective and to provide products and services in line with expected objectives. It is therefore up to the teams present on the field to implement the internal control process

on a day-to-day basis in their activities. The second line of defence consists of internal departments, mainly non-operational ones that define rules and guidelines to be respected and implemented in the operational activities. The second line can also advice, provide guidance or assistance, and support the process methodologically. In doing so, the second line can give a first independent opinion on the way in which processes are carried out and controlled by the first line of defence.

The internal control process and its roll-out over the first and second line of defence is clearly the responsibility of the management of the organisations. The third line of defence is made up of the independent internal audit functions, in charge of evaluating the internal control process in view of its continuous enhancement and in response to the stakeholders' expectations to gain assurance on the achievement of the companies' objectives.

It should also be noted that it is not the aim of this document to define the various functions within an organisation, but to show the link that exists between internal control and governance functions. In addition, internal control interacts with risk management and indeed complements it, since internal control includes those risks which the operational teams are confronted with when reaching their own objectives.

Bearing in mind these various notions and the relative complexity of the internal control process, ICIB describes it in 12 precepts which aim to complement the reference material which already exists, such as the COSO framework, ISO 31000 standard and the CBOK guidelines, in order to bring together best practices on the topic.

The Position Paper was initially addressed solely to the insurance industry undertakings. Since the context and requirements in other service industries proved to be very similar, we extended the scope of this document to the whole service industry and even to other organisations of the private and public sector.

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Internal Control

Summary of the Principles

Precept 1: Internal control is an active process.

Precept 2: As any other process, the internal control process is submitted to continuous improvement cycles.

Precept 3: The internal control process involves all staff of an organization, from the top management to employees at all transaction levels.

Precept 4: The ultimate goal of internal control is to provide assurance about the capacity of the organization to achieve its objectives.

Precept 5: Internal control is a process with various sub-processes; the set of rules and procedures with which staff has to comply in order to control its activity can be considered as a regular output of this process.

Precept 6: Distinct approaches are developed to organize the different control activities.

Precept 7: Risks are analysed with their interdependencies.

Precept 8: The internal control process is integrated in the business processes.

Precept 9: Second line of defence functions assist management in controlling their end-to-end process and bring in the necessary judgment and expertise whenever necessary.

Precept 10: Specific risk management functions will contribute to and interact with the internal control process on operational risks.

Precept 11: An internal control coordinator acts as an advisor and coach of the internal control process.

Precept 12: The organization will define the responsibility of all participants in the internal control system, in line with the components of the internal control process.