

Conceptual framework of internal control

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ABSTRACT

This paper delves into the conceptual framework of internal control by exploring its origins, definitions, importance, and essential components. The evolution of internal control is traced back to the separation of ownership and management, highlighting its role in protecting organizational assets and ensuring operational efficiency. The definition of internal control has expanded over time, incorporating various organizational goals such as asset protection, operational efficiency, and regulatory compliance. This evolution reflects the growing complexity of business activities and the increasing need for accurate data in decision-making processes. The significance of internal control is emphasized by its capacity to mitigate fraud, protect assets, and facilitate sound decision-making, hence upholding financial integrity and accomplishing organizational goals. The elements of internal control, as delineated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), comprise the control environment, risk assessment, control actions, information and communication, and monitoring activities. These components offer a comprehensive structure for firms to build and sustain robust internal control systems, guaranteeing their operations' effectiveness, efficiency, and integrity.

Keywords

Audit; Control Environment; Internal Control; Monitoring; Risk Management.

Introduction

The concept of internal control has significantly evolved due to its importance at the level of individuals, companies, institutions. Additionally, internal control is important for governments in both wealthy and developing nations. It is essential in the fight against corruption, embezzlement, manipulation, and deception in financial data. It aids in achieving efficiency and effectiveness in the utilization of a company's resources and assets, assists management in monitoring the implementation of established procedures and policies, and helps in identifying and rectifying defects and deficiencies to meet the company's objectives.

Additionally, as businesses face increasingly complex operational environments and heightened regulatory scrutiny, the importance of internal control systems has become even more pronounced. These systems not only help organizations comply with legal and regulatory requirements but also enhance transparency and accountability in their operations. Furthermore, in today's globalized and interconnected business landscape, where risks can arise from various sources, effective internal control mechanisms provide a sense of assurance to stakeholders, including investors, creditors, and the general public, it concerns the dependability and honesty of financial data and the broader management and control system.

Thus, the continued evolution and refinement of internal control practices remain essential for fostering trust, mitigating risks, and promoting sustainable growth in organizations worldwide.

For this purpose, the problem that we will try to answer in this paper is :

How has the historical evolution of internal control, and what are the standards necessary for effective internal control systems in modern organizations?

To address this question, our paper sets out the following objectives:

- Exploring the historical progression and essential principle of internal control.
- Evaluating the importance of internal control and its many categories.
- Investigating the objectives and key components that constitute effective internal control systems.

1- The Origin of Internal Control

In the past, organizations were small and typically owned by a single individual who was responsible for managing and overseeing the operations. This was logical because the owner had comprehensive and detailed knowledge of all aspects of the organization due to its small size.

The origin and development of internal control as an autonomous activity within organizations can be attributed to the expansion and growth of organizations, which were driven by industrial and technological

breakthroughs, the spread of global trade, and the expansion of domestic trade. Under these circumstances, several notable points emerged:

1.1. Separation of Ownership from Management:

The reliance on professional the delegation of organizational management to managers has generated a need for owners to access reliable information to ensure the protection and effective oversight of their assets. To meet this need, owners hire external auditors to review the organization's financial records and offer an unbiased assessment of the accuracy of the financial statements.

In light of these developments, internal control has become an essential component of organizational management, expanding its scope to address the growing complexity and size of modern institutions.

As organizations grew, they began to rely on specialized managers to run their operations. Simultaneously, there was a growing requirement to acquire precise information to protect assets and enhance managerial effectiveness. To accomplish this, corporations started to hire external auditors to scrutinize their accounts and assess the accuracy of the numbers presented in the financial reports (Muhammad Othman Batmeh, 1985, p. 13).

1.2. Protection of Organizational Assets:

With the separation of ownership from management and the evolution of legal structures from partnerships to corporations with limited liability, organizations became fully responsible for protecting their assets from loss and misuse. This necessitated the implementation of procedures to safeguard these assets and to absolve management of responsibility toward the owners, shareholders, and the state. Management must establish a series of measures to protect assets, ensure their security, avoid errors and negligence, and detect any potential issues. The success or failure of management is often measured by its ability to fulfill this fundamental function, which is facilitated by implementing a robust internal control system (Hussein Al-Qadi, 1999, p. 237).

1.3. Diverse Organizational Types :

Organizations have evolved into various types and classifications, whether in terms of the nature of their activities (commercial, agricultural, industrial, service-oriented) or their legal nature (private, public). These forms resulted from the diversification of activities and sectors attracting increased investment. Therefore, it became imperative for shareholders to establish a board of directors to deliberate on all things about the business and assess the performance of the management. This evaluation involves comparing the results achieved by the management, presented in the form of information lists, analytical statements, and budgets that detail all stages of activity within the organization, with the goals outlined in the organizational plan, it is an essential element of the internal control system.

1.4. The Growth of Enterprises in the Modern Economic Life :

As enterprises have grown in size, it has become challenging for management to monitor the various aspects of their operations through personal contact. Hence, internal control has become a crucial mechanism employed by management to guarantee the precision of data, statistics, and reports and verify their integrity by eliminating errors or manipulations (Abdelsalam Khamees Badawi, 2011, p. 24).

1.5. The Shift to Sampling in External Auditing :

The transition from comprehensive, in-depth audits to auditing based on sampling has made a robust internal control system necessary. Due to the larger scale and intricacy of businesses, it is no longer feasible for external auditors to examine every transaction documented in the company's financial records. Consequently, a reliable internal control system is necessary for the external auditor to identify the suitable sample size for the audit (Ghassan Falah Al-Matarneh, 2006, p. 206).

1.6. Diversity of Operations and Distribution of Authorities and Responsibilities :

Enterprises engage in a variety of operations, including investment, purchasing, production, and sales. Each function involves multiple operations that vary from one function to another and from one enterprise to another. This diversity necessitates that the internal control system adapts to the variety of operations. Additionally, the geographical expansion of enterprises, either nationally or as multinational corporations, requires the distribution of authorities and responsibilities to sub-directorates. This allows for timely and appropriate decision-making, while ensuring that these sub-directorates or units are accountable to the general management. The general management is, in turn, accountable to the board of directors, which evaluates the performance of the entire enterprise, including sub-directorates, against the organizational plan using all means and procedures to achieve the objectives of the internal control system (Hussein Al-Qadi, 1999, p. 236).

1.7. Increasing Complexity of Activities :

In the past, tasks were relatively simple and easy to master with the required skills. Consequently, managers or owners could understand and evaluate the work of their employees. However, as time progressed, everything became more complex. Organizations branched out and became harder to control, requiring more specialized skills for various tasks. Manufacturing processes became more detailed and demanded precise knowledge. Often, the available information systems were unclear, with specialists keeping information to themselves. These specialists, active in all sectors, generally know more about their field than their superiors. To combat this complexity, it is necessary to simplify processes. Companies have naturally responded to this need, and the success of internal control is part of this response. In times of increasing complexity, internal control has emerged as a lifeline (Jacques Renard, 2012, p. 6).

1.8. The Need for Accurate Data by Management :

Government entities require accurate and periodic data to monitor the activities of enterprises and their impact on the national economy, as well as to ensure that enterprises fulfill their social responsibilities (such as contributing to development plans, bearing a fair share of societal burdens through taxes, employing a portion of the workforce, and contributing to environmental protection). Given that management is responsible for protecting assets, efficiently using available resources, and providing reliable data, an effective internal control system aids management in meeting these responsibilities (Abdul Razzaq Muhammad Othman, 1999, p. 80).

1.9. Increase in Business Failures :

The collapse of numerous global enterprises, resulting in the loss of capital for many shareholders and stakeholders due to corrupt management practices, and the failure of external auditors to detect violations and take appropriate professional actions, has heightened interest in internal control systems. Studies on the causes of these business failures have concluded that weak internal control performance was a primary reason, leading to increased attention to the role of internal control in modern business enterprises (Rezaee, Zabihollah, 1996, p. 30).

1.10. Scientific and Technological Developments :

It is well known that electronic data processing systems create an environment that can facilitate the commission of various violations and the theft or alteration of information without leaving a trace. This necessitates the presence of a robust internal control system (Abdelsalam Khamees Badawi, 2011, p. 25).

1.11. Issuance of Global Quality Standards :

International quality certification has become a passport to access external markets in various countries. Some nations require suppliers of goods and services to obtain international quality certificates issued by the International Organization for Standardization (ISO). Consequently, enterprises must extend their internal control functions to include quality control to ensure compliance with international quality standards and requirements (Abdelsalam Khamees Badawi, 2011, p. 25.).

2- Concept of Internal Control

As a result of the evolution of economic activity and the increase in the size of establishments, along with the separation of ownership from management and the diversity of various types of institutions, all of this and more has led to the development of the concept of internal control through several different stages, which can be summarized in four stages as follows:

2-1-Personal Control Stage (Abdul Razzaq Mohammed Osman, 1999, p. 82) :

In this stage, individual establishments were the predominant form of projects. During this period, the subject of internal control was limited to the concept of internal control as measures to safeguard against errors and manipulation in accounting records or in presenting results and manipulating the assets and funds of establishments. Therefore, it is noted that when designing any internal control system, there are three elements that must be taken into consideration:

- a) Division of work among employees in a manner that automatically ensures one person's control over the other.
- b) Using accounting control methods.
- c) Conducting periodic rotations of employees in various positions.

Although these elements still have value in internal control, the concepts of control at present have expanded and evolved in a way that makes the mentioned elements mere components in one aspect of internal control systems.

2-2-Internal Control Stage :

In 1936, the Certified Public Accountants American Institute (AICPA) introduced the term internal control to replace internal control. The aim of internal control was primarily to preserve the assets of the establishment, primarily cash, but its objectives evolved to include protecting other assets and ensuring the accuracy of accounting records, i.e., aspects of protecting cash (Hussein Qadi, 1999, p. 237).

2-3-Productivity Efficiency Stage :

The significant expansion in the size and number of institutions, accompanied by inflation in administrative and supervisory operations, and complexities in production, marketing, management, and finance, led to the need to drive productivity efficiency for competition. Profitability became an insufficient measure of an institution's efficiency. Thus, scientific management emerged, aiming to maximize the economic utilization of available material and human resources. This development in economic conditions influenced the concept of internal control and its goals. Consequently, the Audit Procedures Committee of the Certified Public Accountants American Institute (AICPA) introduced a new concept of internal control in 1949. This concept developed significantly over time, defining internal control as: "the organizational plan and all coordinated methods and measures implemented within an organization to protect its assets, ensure the accuracy and reliability of its accounting data, enhance operational efficiency, and encourage adherence to established managerial policies" (Mohammed Al-Adawi Al-Zunun, 2018, p. 34).

2-4-Internal Control Structure Stage :

In this stage, the term "internal control" was replaced with "internal control structure," considering the latter more comprehensive. A new concept was introduced, considering it as a set of policies and procedures that provide reasonable assurance that the institution's objectives will be achieved. According to this report, the internal control structure consists of three elements: control environment, accounting system, and control procedures. According to the standards of AICPA (SAS No. 78), "the three elements of the internal control structure in Statement (SAS No. 55), which are control environment, accounting system, and control procedures, were replaced by the five components of the internal control system presented in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) statement, which are control environment, risk assessment, control activities, information, communication, and monitoring". This development in the concept of internal control can be referred to as the fifth stage in the development stages

of the concept of internal control, where the concept changed from a control structure to procedures and operations (Thaer Sabri Mahmoud Al-Ghuban, 2009, p. 6.).

3- Definition of Internal Control

The definitions of internal control have varied over time, reflecting the evolution of the concept. We will provide definitions that correspond to the stages of development of the internal control concept.

Ignoring the long years during which definitions were not formulated, although there were practices, since the 1960s, the French system imported by accounting experts and auditing firms introduced the concept by showing that controlling primary risks in accounting allowed for the verification of system integrity and fidelity. They cannot be criticized because they were primarily concerned with their professional requirements. Additionally, since 1977, the Institute of Chartered Accountants of Internal Control provided a definition that clearly illustrates a precise vision of the concept and its potential application:

"Internal control is a set of securities contributing to controlling the company, aiming on one hand to ensure protection and preservation of assets and the quality of information, and on the other hand to implement management instructions and assist in improving performance. It is manifested in the organization, methods, and procedures of each activity within the company's activities, in order to maintain its integrity" (Grand B., Verdalle B., 1999, p. 63).

The universality of the concept was acknowledged and already confirmed in 1977, and this definition was also transferred in 1978 with almost identical wording by the Advisory Committee on Accounting:

"Internal control includes all control systems, financial and otherwise, established by management to be able to manage the company's affairs in an organized and effective manner, to ensure compliance with management policies, protect assets, and ensure the accuracy and completeness of recorded information" (Renard Jacques, 2010, p. 130).

In 1985, with the emergence of certain scandals, the restructuring of internal control began, under the leadership of American Senator Treadway, who emphasized the necessity of providing leaders and company executives with a tool and a repository of concepts that would allow them to better control their activities. To achieve this goal, a task force, the Treadway Commission, was formed, consisting of a tripartite body representing major auditing firms, members of professional organizations (IIA - AICPA), and representatives of major companies. This committee published the results of its work in 1992 in the book "The Integrated Internal Control Framework," which was translated into French under the title "Internal Control Practice" and is now known as COSO.

The definition of internal control provided by COSO in 1992 had a global impact, defining it as:

"Internal control is a process implemented by the organization's board of directors, management, and employees to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance" (COSO /PwC /IFACI, p. 30).

This definition focuses on the actors involved in internal control (board of directors, leaders, and employees). In fact, internal control is the work of all actors in the organization, regardless of their position, as everyone has their goals and therefore has internal control from top to bottom, as will be shown later.

However, it was not long before a new definition was proposed by the Canadian Institute of Chartered Accountants according to the Committee on Control Standards (COCO) in 1995, defining internal control as:

Internal control is the elements of the organization (including resources, systems, processes, culture, and missions) that together help achieve objectives" (Jacques Renard, 2010, p. 138).

This definition emphasizes and confirms two fundamental aspects:

- **Relative:** Internal control does not provide a guarantee of achieving objectives but helps in achieving them. This aspect was previously confirmed by the COSO definition, stating "reasonable assurance".
- **Organizational:** It clarifies that reliance on intuition and approximation is no longer sufficient, but readiness for organization and implementation is required.

In 2006, the Financial Market Authority (AMF) decided to formulate a more specific French reference framework that gives internal control a definition believed to be comprehensive, summarizing all other definitions, as follows (Reference Framework on Risk Management and Internal Control Systems for Medium and Small Enterprises, 2010, p. 5):

Internal control is a mechanism of the entity, defined and implemented under its responsibility, including a set of means, behaviors, and procedures adapted to the specific characteristics of each company. It aims to:

- Compliance with laws and regulations;
- Application of instructions and guidelines set by executive management or the executive board;
- Good conduct of the company's internal operations, especially those contributing to the protection of its assets;
- In general, contribute to controlling its activities, operational efficiency, and effective use of its resources."

It is evident that all the mentioned definitions were processes of revision, development, and refinement of the previous definition, taking into account the experiences and views of each issuing body of the definition. We cannot say now that all definitions are sufficient or complete, or vice versa. What was previously defined and understood as internal control does not mean that it is a complete and valid definition for all times. However, the efforts to develop definitions were aimed at providing a more descriptive, comprehensive, and expressive definition for all types and sizes of entities, to anticipate and address most types of problems that may be encountered, and ultimately to ensure assistance in achieving the stated objectives.

Based on the foregoing, this comprehensive definition of the concept of internal control can be presented: Internal control is a set of means established and implemented by company management to provide reasonable assurance regarding the achievement of the entity's objectives, especially regarding the reliability of financial information, operational efficiency, and the application of predefined policies, laws, and regulations. Consequently, internal control is a system designed and implemented by company management to respond to specific risks associated with activities and fraud risks (non-compliance with laws and regulations), which constitute obstacles to achieving the company's objectives.

4- The Importance of Internal Control repetition

The importance of internal control stems from being one of the fundamental pillars in modern scientific management. It is the main tool for advanced management to elevate institutions to keep pace with development and modernization, achieving high levels of efficiency and effectiveness.

The significance of internal control has grown due to the expansion of institutional activities, the multiplicity of its tasks, and the magnitude of the funds invested in institutional projects, all aimed at reducing opportunities for fraud and embezzlement, protecting institutional assets, ensuring their safe use, and providing management with the information and data needed periodically to assist in decision-making, planning, and performance evaluation.

The critical importance of internal control is particularly evident in its relationship with both planning and decision-making processes. Control cannot be carried out without plans with specific objectives, nor can its results be harvested without effective decisions. In all cases, it seeks to achieve the institution's objectives. Therefore, it is appropriate to present in some detail the relationship between internal control and both planning and decision-making (Saeed Yousef Hassan Kalab, 2004, p. 44).

The value of internal control for management lies in its role as a tool enabling it to ensure the proper implementation of financial policies, thereby achieving objectives related to the credibility of financial statements and the accuracy of financial reports submitted to it, protecting the institution's assets from manipulation and misuse. It requires management to evaluate this system to identify weaknesses and work on correcting and addressing them (Fayez Marzouq Hamad Saafaq Al-Azmi, 2012, p. 19).

5- Types of Internal Control

5-1- Accounting Control :

With the evolution in the size of enterprises, there has been a shift to employing accounting tools and methods for achieving control. Financial accounting ensures the verification and authenticity of operations, their recording, classification, summarization, and presentation of results that reflect the activity and financial position of the enterprise. It also involves the preparation of financial statements and accounting data for various purposes within the framework of accounting accuracy.

Accounting control, therefore, is that part of the internal control system concerned with achieving accounting and financial goals, safeguarding the enterprise's resources and assets, and preparing financial reports with the required level of confidence. It includes auditing and reviewing accounting operations and documents. It essentially involves recording, classifying, summarizing financial transactions and events, and interpreting the results thereof.

Accounting control encompasses organizational structures and all methodologies and processes primarily aimed at safeguarding assets and maintaining the accuracy and integrity of accounting records. Its main focus is to ensure that operations are carried out in a manner conducive to preparing financial statements in compliance with generally accepted accounting principles. Additionally, it guarantees ongoing inventory checks and the alignment of book balances with actual balances, with appropriate actions taken to resolve any disparities. (Abdul Razzaq Mohammed Othman, 1999, pp. 107-108)

To achieve this type of control, the following elements are employed (Sayed Mohamed, 2008, p. 8):

- Designing a comprehensive and appropriate documentary system for the institution's operations.
- Establishing a comprehensive and sound accounting system consistent with the nature of the institution's activities.
- Implementing a robust system for inventorying the institution's assets and properties according to generally accepted accounting rules.
- Setting up a system for monitoring and protecting the institution's assets and properties, ensuring their existence and use for designated purposes, which may include the use of appropriate control accounts.
- Developing a system for comparing the responsibility accounting records of the institution's assets with the actual inventory results periodically, and subsequently examining and addressing the causes of any differences.
- Creating a system for preparing periodic (e.g., monthly) trial balances to verify the accuracy of the recorded data and financial information during the period for which the trial balance is prepared.
- Establishing a system for approving inventory results and inventory adjustments at the end of the period by one or more responsible individuals in the institution.

5-2- Administrative Control :

Administrative control includes all methods and means used by the economic unit's management to direct, supervise, and verify activities and functions to ensure that objectives are achieved. It seeks to ensure that events conform to plans.

Administrative control is defined as including the organizational plan and all methods and procedures primarily related to enhancing functional efficiency, implementing administrative policy, and indirectly linking to accounting records. It encompasses various tools such as budgetary planning, standard costing, time and motion studies, employee training programs, and information systems (Abdul Razzaq Mohammed Othman, 1999, pp. 97-98).

The Committee on Auditing Procedures of the American Institute of Certified Public Accountants defines internal control as the organizational plan and the entirety of methods, procedures, and techniques established by the company's management. These are designed to safeguard assets, ensure the accuracy and reliability of accounting information, improve operational efficiency, and ensure adherence to management policies. (International Federation of Accountants, International Standards on Auditing and Assurance and Code of Ethics, Standard No. 400, 2009, p. 122).

To achieve administrative control objectives, various tools can be used, including (Remisa Karad, 2016, p. 18):

- Statistical analysis and time and motion studies.
- Employee training programs and performance reports.
- Budgetary control and quality control.
- Charts and knowledge of standard costs.

Administrative control is linked to operational departments rather than the accounting or financial department of the institution. This is because these departments are not directly tied to the financial department, meaning they do not fall under the responsibility of the financial manager.

5-3- Internal Auditing :

Internal auditing encompasses a set of organizational and accounting procedures and methods aimed at continuously and automatically monitoring the operations of the economic unit. It ensures that the work of one person is reviewed by another to guarantee workflow, prevent errors or fraud, or detect them shortly after they occur through the automatic application of the system (Saud Jaed Mashkour, 2016, p. 35).

It is also defined as including the organizational plan and all methods and procedures aimed at protecting the institution's assets from embezzlement, loss, or misuse. Internal auditing relies on work evaluation and self-monitoring to achieve its objectives, where each employee's work is reviewed by another employee participating in the process. It depends on defining responsibilities, authority, and duties (Abdul Raouf Jaber, 2003, p. 170).

Internal auditing includes a set of control rules that can be divided into three groups (Guide to Financial Control by the Arab Organization of Supreme Audit Institutions, Internal Control Guide, Part Nine, p. 221):

- **Administrative Rules:** These involve procedures that achieve control by defining responsibilities, distributing duties to ensure the complementarity of efforts and prevent conflicts, detailing the steps of all the institution's operations, and periodically changing assigned duties.
- **Accounting Rules:** These include procedures that enhance the effectiveness of the accounting system in controlling the institution's operations and protecting its assets. They involve immediate recording of transactions in books, using overall control accounts, conducting periodic reviews of books and records, and reconciling actual balances of assets with their book balances.
- **General Rules:** These procedures aim to protect the institution's assets, including ensuring those assets, employing boundary and dual control methods, such as setting graded authority limits for transaction approvals and involving multiple employees in performing the process. They also include conducting surprise inspections of the work in various departments and branches of the institution.

6- Objectives of Internal Control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) identified three categories of objectives that allow organizations to consider all different aspects of internal control. These categories serve as a framework that anyone involved in preparing or managing internal control should consistently refer to. The three objectives are (Kurt F. Reding, Paul J. Sobel, 2015, pp. 6-11):

6-1- Operational Objectives: These relate to the efficiency and effectiveness of operations, including operational and financial performance, as well as the safeguarding of assets:

6-1-1. Efficiency and Effectiveness of Operations (Mohamed El-Touhami Tawahar and Massoud Siddiqui, 2005, pp. 89-98): The control procedures applied in the institution aim to increase effectiveness and ensure the optimal use of available resources by making sound internal decisions based on the reliability and accuracy of available information and data. This means promoting operational efficiency within the unit's activities.

6-1-2. Safeguarding of Assets (Lendle, Klaus, Nov 2008, pp. 62-67): This refers to the actual protection of the institution's assets and records. There are two types of protection in this context: physical protection, which involves safeguarding assets from external threats such as theft or damage by

storing them in specially designed warehouses, and accounting protection, which involves linking records to the actual movements of assets and includes all their movements to ensure precise tracking, such as receiving materials, storing them, and managing investments.

6-2- Reporting Objectives: These pertain to internal and external reporting, both financial and non-financial, timeliness, transparency, or other aspects required by regulatory bodies, standard-setting organizations, or internal directives. The information should be (Jacques Renard, 2009, pp. 145-146):

6-2-1. Reliable and Verifiable: Good information is not enough; the system must allow verification of its accuracy, meaning internal control should include a system for validating and justifying information. For an accountant, this might mean an archiving and document retention system, whereas for a manufacturing manager, it could involve recording temperatures, pressures, and flows.

6-2-2. Complete: Accurate information is useless if it is incomplete. This implies that the internal control system must ensure the quality of records from the basic data sources.

6-2-3. Relevant: Information must be appropriate for the purpose; otherwise, it is unnecessary. Nowadays, databases often generate excessive information flows, which can prevent the information from being relevant and meaningful.

6-2-4. Accessible: Everyone knows examples of information that comes too late or is not easily accessible. Internal control must avoid similar situations, as they have a generally negative impact.

6-3- Compliance Objectives (Mustafa Issa Khudair, 1996, p. 195): The institution's objectives are articulated into a set of integrated policies, plans, and procedures covering all aspects of the institution. These are communicated to the various operational executors through administrative levels, via written or oral orders, ensuring compliance and adherence. This helps the institution achieve its stated goals.

Encouraging Adherence to Management Policies: Implementing management's directives allows for monitoring the implementation of the planned strategies and evaluating the performance of units to ensure operations are conducted according to the established data. It also helps identify the extent to which objectives are met, reveal deviations and manipulations, and identify any deficiencies in performance to take necessary corrective actions.

7- Components of internal control and their standards

Internal control encompasses a set of principles and rules that govern it, enabling it to achieve its objectives effectively. These principles consist of a collection of components, standards, elements, and procedures that ensure the integrity and effectiveness of the internal control system.

Internal control encompasses a set of principles and rules that govern it, enabling it to achieve its objectives effectively. These principles consist of various components, standards, elements, and procedures that ensure the integrity and effectiveness of the internal control system.

The process of identifying the components of internal control has undergone several stages, with its evolution linked to the phases of defining internal control. In this requirement, we will explain the latest components proposed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in alignment with the most recent definition discussed in the first section.

In its 2013 revision, COSO placed emphasis on five interconnected components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring activities.

This 2013 update distinguished itself from previous versions by (FRAMEWORK: An Implementation Guide for the Healthcare Provider Industry, Committee of Sponsoring Organizations of the Treadway Commission, January 2019, p5):

- 1) Its applicability in today's environment with various business models, technologies, and related risks.
- 2) Documenting Providing documented standards that can be utilized to develop and assess the effectiveness of internal control systems.
- 3) Establishing 17 explicit principles, each with points of focus and connections to a component of internal control.

- 4) Expanding reporting objectives to support internal, financial, and non-financial reports, operational objectives, and compliance.
- 5) Emphasizing the need for judgment in evaluating whether a company has effective internal control, with a focus on accountability for internal control throughout the organization, starting from the board level and senior management.
- 6) Explicitly addressing IT controls by identifying the need to consider fraud risks, not only in financial data but also in compliance and operations.

COSO has stipulated that to achieve the objectives of internal control, an organization must rely on five components of internal control, which are represented in a cube as shown in the following figure (Jean-Pierre HOTTIN, Françoise BERGE, July 2013, p18):

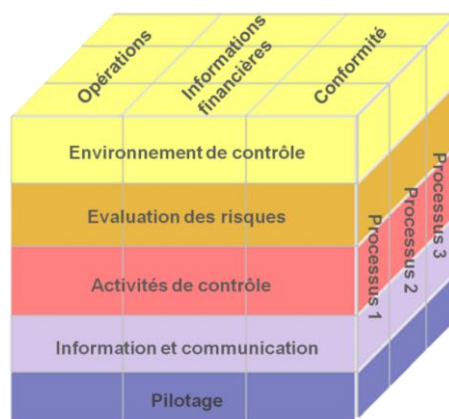


Fig N° 1: Committee of Sponsoring Organizations Cube (Jean-Pierre HOTTIN, Françoise BERGE, July 2013, p18)

A. Control Environment

The control environment describes the set of standards, processes, and structures that provide the basis for implementing internal control across the organization. According to the Institute of Internal Auditors (IIA), the control environment is the foundation upon which an effective internal control system is built and operated in organizations striving to achieve their strategic objectives, provide reliable financial reports to internal and external stakeholders, operate efficiently and effectively, comply with all applicable laws and regulations, and protect their assets (Annette Schandl, Philip L. Foster, January 2019, p5).

COSO's 2013 update established 17 principles of internal control, each linked to a specific component of internal control. The standards related to the control environment component include the following five principles (COSO /PwC /IFACI, p. 39):

- 1) The organization demonstrates a strong commitment to integrity and ethical values.
- 2) The board of directors maintains autonomy from management and supervises the development and execution of internal control measures.
- 3) Under the oversight of the board, management establishes structures, reporting lines, and delineates appropriate authorities and responsibilities to attain organizational objectives.
- 4) The organization is dedicated to attracting, nurturing, and retaining skilled individuals in accordance with its objectives.
- 5) The organization holds individuals accountable for their internal control responsibilities to achieve objectives.

B. Risk Assessment

Risk assessment forms the foundation for determining how risks will be managed. Risk is defined as the possibility of an event occurring that could negatively impact the achievement of organizational objectives. Effective risk assessment requires management to consider potential changes in both the internal and

external environments and to take actions to manage their impact (Annette Schandl, Philip L. Foster, January 2019, p.5).

The standards associated with the risk assessment component encompass four principles (COSO /PwC /IFACI, p. 39):

- 1) The organization outlines objectives with clear precision to facilitate the identification and evaluation of risks that may impact their attainment.
- 2) The organization identifies risks to achieving its objectives throughout the entity and conducts analyses to determine how these risks should be managed.
- 3) The organization considers the potential for fraud when assessing risks to the achievement of objectives.
- 4) The organization identifies and evaluates changes that could substantially impact the internal control system.

C. Control Activities

Control activities encompass measures, often detailed in policies, procedures, and standards, which aid management in mitigating risks to ensure the accomplishment of organizational objectives. These activities can take on a preventive or detective nature and are deployed across all tiers of the organization (Annette Schandl, Philip L. Foster, January 2019, p.5).

The standards related to the control activities component encompass three principles (COSO /PwC /IFACI, p. 39):

- 1) The organization selects and develops control activities that help mitigate risks to acceptable levels.
- 2) The organization selects and develops general controls over technology to support the achievement of objectives.
- 3) The organization implements control activities through policies that establish expectations and procedures that put these policies into action.

D. Information and Communication

Management acquires or generates information from both internal and external sources to bolster the components of internal control. This communication is vital for disseminating crucial information across the organization and externally as necessary to align with and uphold organizational goals and expectations (Annette Schandl, Philip L. Foster, January 2019, p.5).

Three principles are associated with this component of internal control (COSO /PwC /IFACI, p. 39):

- 1) The organization acquires or generates and utilizes pertinent, high-quality information to bolster the effective operation of other internal control components.
- 2) The organization communicates internally the information necessary to support the functioning of internal control components, particularly concerning objectives and responsibilities .
- 3) The organization engages in communication with external parties regarding issues that influence the operation of internal control components.

E. Monitoring Activities

Monitoring activities involve periodic or continuous assessments to ensure that each of the five components of internal control, along with the controls influencing the principles within each component, are present and functioning effectively (Annette Schandl, Philip L. Foster, January 2019, p.5). The standards for the fifth and final component of internal control encompass two key principles (COSO /PwC /IFACI, p. 39):

- 1) The organization selects, develops, and conducts ongoing and/or separate evaluations to determine whether the components of internal control are present and operating as intended.
- 2) The organization promptly assesses and communicates internal control deficiencies to those tasked with corrective actions, including senior management and the board of directors, as deemed appropriate.

Conclusion

This article provides a detailed and comprehensive overview of the Internal Control Framework, the evolution of internal control has been influenced by various factors such as the separation of ownership from management, the need to protect organizational assets, the diversification of organizational types, the growth of enterprises, and advancements in technology. The increasing complexity of business activities, the demand for accurate data by management, and the rise in business failures have further underscored the importance of internal control. Additionally, the issuance of global quality standards and the adoption of scientific and technological developments have necessitated the implementation of robust internal control systems. Overall, internal control plays a crucial role in ensuring the effectiveness, efficiency, and integrity of organizational operations, making it indispensable in today's dynamic business environment.

The concept of internal control has transformed over time to adapt to economic shifts and organizational dynamics. Initially rooted in personal oversight, it has evolved into a comprehensive framework essential for organizational efficiency and integrity. As businesses encounter new challenges, internal control will continue to evolve to meet modern demands.

Similarly, the definition of internal control has expanded to address a range of organizational goals, including asset protection, operational efficiency, and compliance. These evolving definitions reflect ongoing efforts to refine the concept in line with changing organizational and regulatory landscapes. Ultimately, internal control remains indispensable for management in achieving objectives and managing risks effectively.

Internal control is paramount in modern management, ensuring efficiency and integrity in institutional operations. It reduces fraud risks, safeguards assets, and aids decision-making. For management, it's essential for upholding financial integrity and achieving organizational objectives.

Internal control comprises accounting, administrative, and internal auditing controls. Accounting control ensures financial integrity, while administrative control focuses on operational efficiency. Internal auditing provides continuous monitoring to prevent fraud. Together, these controls form a crucial framework for achieving organizational objectives and safeguarding assets.

The objectives of internal control, as outlined by COSO, encompass operational efficiency, safeguarding assets, reliable reporting, and compliance with regulations. These objectives serve as a comprehensive framework for organizations to ensure effectiveness, transparency, and adherence to policies. By addressing these objectives, internal control systems contribute to the achievement of organizational goals and the mitigation of risks.

Internal control is essential for organizations to achieve their objectives effectively and efficiently. The components of internal control, as outlined by COSO, provide a framework for organizations to establish and maintain robust control systems. These components include the control environment, risk assessment, control activities, information and communication, and monitoring activities. Each component is supported by specific standards and principles aimed at ensuring the integrity and effectiveness of the internal control system. By adhering to these components and standards, organizations can better manage risks, safeguard assets, and enhance overall performance.

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