

Entity-Level Controls

The Backbone Of An Internal Control Framework

Within the challenging and ever-changing environment surrounding entities, the importance of obtaining a clean audit opinion through the adherence to a strong governance framework, the implementation of effective internal controls, and the compliance with evolving regulatory requirements has never been greater. To mitigate an entity's inherent risks, while providing reasonable assurance that effective internal controls are in place, management needs to adapt by having a clear understanding of their environment while incorporating a go-forward strategy to enhance their operations. Entity-level controls (ELCs) can help.

ELCs are internal controls that pervasively impact an entity's environment and operations, which may consist of the following five components: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. The entity can demonstrate to internal and external users that their goals and objectives have been met by designing, implementing, and maintaining effective ELCs. All five components are intertwined to create a holistic approach to establish an effective internal control framework and support financial reporting assertions.

Five Components of Internal Control

Component	What does that mean? ¹	How can we implement this?
Control Environment	The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.	Oversight committees, standards of conduct, organizational charts, and HR manuals.
Risk Assessment	Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.	Forecasting and strategic planning of risks and risk tolerances, and analysis of operations-, non-financial reporting-, financial reporting-, and compliance-related deficiencies.
Control Activities	The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	System application controls, segregation of duties, and physical inventories.
Information & Communication	The quality information management and personnel communicate and use to support the internal control system.	Complete and accurate asset populations, whistleblower policies, ethics hotlines, and quarterly newsletters.
Monitoring	Activities management establishes and operates to assess the quality of performance over time and promptly resolves the findings of audits and other reviews.	Ongoing evaluations of employee performance and timely remediation of both internal (e.g., audit committee meeting minutes) and external feedback (e.g., regulatory agency reports).

¹GAO (2014, September). Standards for Internal Control in the Federal Government. <https://www.gao.gov/assets/gao-14-704g.pdf>.