



# 1 How to ensure compliance with your processes in six steps

*A simple procedure model for the introduction of an internal control system (ICS)*

## 1.1 Why is an internal control system important?

Processes are an integral and value-adding part of companies. They are cross-functional activities whose handling is the responsibility of different competences and whose control can become complex and unmanageable with increasing numbers. Even minimal deviations within a work process can hinder proper execution and influence other work processes. Consequently, compliance with the proper execution of business processes has a high priority in companies. An internal control system (ICS) helps and ensures correct execution of work performance. It is seen as a control and monitoring system of risks in order to prevent possible damage to the company.

The internal control system is often seen as a time-consuming and bureaucratic management tool. However, in addition to the fulfilment of legal requirements, appropriate documentation and regular review of the ICS have become essential, especially for the sustainable safeguarding of the company's existence. Moreover, it contributes directly to increasing the effectiveness and efficiency of business operations

## 1.2 What is an internal control system?

An internal control system is understood to be the totality of all processes, methods and measures of an organisation that are aimed at ensuring proper operational processes and preventing damage. The focus is on ensuring the achievement of business objectives while complying with requirements regarding effectiveness and efficiency, correctness of financial reporting and compliance with legal framework conditions

### Summary

- Processes are an integral part of companies
- Verifying the correct execution of processes is a challenge for companies
- An ICS is seen as a control and monitoring system with the aim of guaranteeing proper operational processes

### 1.3 A procedure model for the introduction of your ICS in six steps.

If the internal control system is well embedded in the company, it can be operated with little effort and still deliver the required effectiveness.

With the following six steps, you are guaranteed to succeed in implementing your ICS:

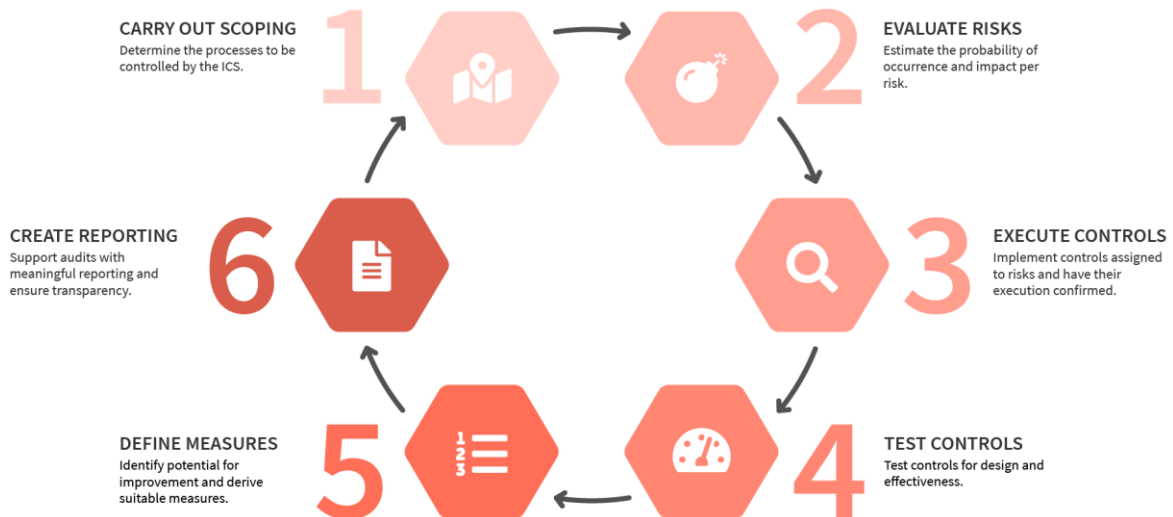


Figure 1: The procedure model for the introduction of an internal control system (ICS)

#### 1. Carry out scoping

The first step in implementing the internal control system is **scoping**, in which all ICS-relevant business processes are identified, defined and established. ICS-relevant processes are all those processes whose risks make it difficult or impossible to achieve the defined operational corporate goals. In order to reduce these risks, controls are assigned and compared to them. Any number of controls can be assigned to a risk. The goal is to create a complete risk and control catalogue that is linked to the respective business processes.

#### 2. Evaluate risks

**Risk assessment** defines the probability of occurrence of a risk and identifies possible impacts. A realistic evaluation of the risks by experts is of importance. The evaluation should be assigned individually for each risk and should take place at regularly defined intervals, taking into account any changes in the environment. This periodic valuation can be carried out, for example, according to the gross/net principle. The evaluation process depends on the respective company requirements and consists, for example, of assessment, quality assurance and release.

#### 3. Execute controls

For a deep integration of the ICS into your company, we recommend obtaining **confirmations of the control execution**. By requesting control evidence at periodic intervals, effective process execution can be ensured. Both the control execution and the result of the control implementation must be documented and reported according to a standardised procedure.

#### 4. Test controls

**Control testing** is used to verify the feasibility, comprehensibility and effectiveness of controls. Both the design and the operating function (effectiveness) of the control are evaluated regularly. The effectiveness of the control in terms of its design conveys the coverage for the control in relation to the risk. Effectiveness describes the suitability of the control for practical use. The assessment can be validated by quality assurance steps (e.g. cross-checks). A correct and realistic evaluation helps to detect errors and, if necessary, to identify new risks or the need for action.

#### 5. Define measures

If a need for action arises in step 4, **measures** must be defined and implemented to initiate organisational changes. Measures support a clear focus on, for example, control weaknesses, new control procedures or improvement opportunities in the processes. Integrated management avoids silos and shows whether progress is being made or what the next steps are.

#### 6. Create reporting

The **reporting** of risks and controls in the technical and process context directly increases the quality and attention in the company. Process owners and staff benefit directly from the integrated view. From an audit perspective, integrated process/risk/control reports are used (automatically) to ensure a consistent and high-quality audit result.

### 1.4 Conclusion

If the internal control system is well integrated into your company, it supports you in complying with and controlling your business processes. It is therefore an essential prerequisite for an efficient and effective organisation. Managers and employees also receive the security to carry out their tasks in the best possible way. When implementing an ICS, it is particularly important to ensure that it is adapted to the specific requirements of a company in order to achieve its goals.

We would be pleased to support you in the implementation or optimisation of your internal control system.

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