



## **Chapter X**

# **Controls, Security, and Audit in Online Digital Accounting**

### **Internal Controls: What and Why?**

Internal controls have existed since the dawn of business activities. Internal controls are basically systems of checks and balances. The purpose is to keep the organization moving along desired lines as per the wishes of the owners and to protect assets of the business. Internal controls have received attention from auditors, managers, accountants, fraud examiners and legislatures. Sarbanes Oxley Act 2002 now requires the annual report of a public company to contain a statement of management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and management's assessment of the effectiveness of the company's internal control structure and procedures for financial reporting. Section 404 of the Act also requires the auditor to attest to and report on management's assessment of effectiveness of the internal controls in accordance with standards established by the Public Company Accounting Oversight Board (PCAOB).

Internal controls are also affected by changes in business and information technology. As such, the sophistication, scope and interpretations of internal controls have evolved

*Exhibit 1. Perspectives on internal controls (Source: A Comparison of Internal Controls: COBIT, SAC, COSO and SAS 55/78, by Janet Colbert and Paul Bowen; [www.isaca.org/](http://www.isaca.org/))*

<b>ISACA</b>	<b>Definition:</b> The policies, procedures, practices, and organizational structures are designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.	<b>Components:</b> Planning and organization Acquisition and implementation Delivery and support Monitoring  <b>Focus:</b> Information technology
<b>IIA</b>	A system of internal controls is a set of processes, functions, activities, subsystems, and people who are grouped together or consciously segregated to ensure the effective achievement of objectives and goals.	Control environment Manual and automated systems Control procedures  <b>Focus:</b> Information technology
<b>COSO</b>	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 the following categories: <ul style="list-style-type: none"> <li>• Effectiveness and efficiency of operations</li> <li>• Reliability of financial reporting</li> <li>• Compliance with applicable laws and regulations</li> </ul>	Control environment Risk management Control activities Information and communication Monitoring  <b>Focus:</b> Overall entity
<b>AICPA</b>	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 the following categories: <ul style="list-style-type: none"> <li>• Reliability of financial reporting</li> <li>• Effectiveness and efficiency of operations</li> <li>• Compliance with applicable laws and regulations</li> </ul>	Control environment Risk management Control activities Information and communication Monitoring  <b>Focus:</b> Financial statements

over the years. However, internal controls do not have a standard definition, standard objective nor one owner. The basic questions tackled in this section are: What are internal controls? What function do they serve? Answers to these questions, of course, depend on who is answering the question.

The major U.S. organizations that have articulated concepts of internal controls include Information Systems Audit and Control Association (ISACA), Institute of Internal Auditors (IIA), Committee of Sponsoring Organizations (COSO) and AICPA. These efforts are not independent, but borrow from each other in an evolutionary spiral. Internal controls are viewed as an amalgam of business models, organizational processes, organizational procedures, people and information technology. These controls are used

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