Instructions for using the internal control assessment framework

1 Application and assessment of internal control as management support tools

Agencies use internal control as part of their management systems and as an instrument in the preparation of matters. The purpose of internal control is to support organisations in the achievement of their objectives. Internal control is a key component in good governance and it covers both the organisations' own activities and the tasks that they must perform by law, under agreements or under other obligations.

The agency's senior management is responsible for arranging internal control and risk management and it also approves the assessment and statement of assurance of internal control as laid down in section 65 of the State Budget Decree (1243/1992).

The Internal Audit Committee of the Advisory Board for Internal Control and Risk Management has prepared an assessment framework to support the internal control assessment process. It replaces the recommendation on basic approach to internal control and risk management in central government agencies and off-budget entities and assessment of internal control and risk management (broad and simplified framework) issued by the Advisory Board in 2005. Feedback on the assessment framework and the instructions received from agencies and the lessons learned during the framework piloting stage have been considered in the preparatory process.

The assessment framework is intended to serve as a benchmark against which organisations can compare their own internal control and risk-management practices and identify areas where major improvements are needed. The agency's management and the parties carrying out the assessments can use the framework for following purposes:

1. The framework describes what is included in internal control and in this way, it helps those involved to understand the nature of internal control and risk management.
2. The framework provides a basis for the assessment and statement of assurance of internal control.
3. The framework serves as a checklist for operating units so that they can identify areas in the control and management system where improvements are needed.

4. The framework provides the agency's senior management with a management tool and facilitates the arrangement of internal control as part of the management process.

The assessment framework is based on the COSO 2013 model. The framework has been adjusted to take account of the central government control and management system. The description of internal control is divided into five components as set out in the framework: 1. Control environment, 2. Risk assessment, 3. Control measures,
4. Information and communication, 5. Monitoring activities. The components are further divided into principles and objectives describing the principles. The objectives have been formulated in accordance with the general requirements applying to central government laid down in the State Budget Act and Decree, the Administrative Procedure Act and the State Civil Servants Act.

The framework is a recommendation and it can be adjusted in accordance with the needs of the operating unit concerned and the terminology it uses. The way in which the assessment framework is used depends on such matters as the organisation's management system, operating practices and size as well as its internal control arrangements. The framework should be used as applicable and the number of areas for assessment should be adjusted and the objectives formulated in accordance with the organisation's own activities, guidelines and target-setting.

The assessment framework can be used as a checklist supporting the formulation of a detailed assessment of the state of internal control and risk management, and with the framework, an agency is also better placed to identify areas where improvements are urgently needed. The framework alone does not provide information on the state of internal control. Quantitative information and qualitative analyses carried out by experts should always be used in the assessment of internal control.

In its simplest form (especially in small operating units), the framework can serve as a checklist for management and the persons or units assisting the management in the assessment process. In that case, the framework can be used to assess the state of internal control systematically and in sufficient detail and the process can be documented as necessary.

2 Legislative basis and other regulations and instructions

Provisions on arranging internal control are contained in section 24 b of the State Budget Act (423/1988). Further provisions on internal control and risk management are contained in sections 69 and 69 b of the State Budget Decree (1243/1992).

Under section 65 of the State Budget Decree, the report on operations included in the final accounts of the accounting office must comprise an assessment of the appropriateness and adequacy of internal control and of the risk management included in it and a statement of the state and the most essential developmental needs of internal control (assessment and statement of assurance of internal control).

Other sources of information

- Financial rules
- Rules of procedure
- Risk-management policy (with risk-management guidelines)

3 Key concepts of internal control

Internal control means the procedures, organisational solutions and practices contained in an agency's control and management processes that are intended to ensure

- legality and proper functioning of the operations and financial administration,
- secure management of assets and property,
- provision of correct and adequate information on operations and financial administration.

Internal control is *part of an agency's control and management system*, the purpose of which is to ensure the achievement of the agency's objectives. Under section 65 of the State Budget Decree, internal control also includes risk management. Assessment of internal control is part of the information system used by senior management to receive adequate assurance of the extent and effectiveness of internal control and risk management as well as of the areas where improvements are needed. It is not intended as a separate bureaucratic instrument.

Risk refers to the manner in which uncertainty impacts the achievement of objectives. It is a deviation from what is expected. The impact may be positive or negative, compared to what was expected.

Control measure is a process, procedure, instrument or structure used by an organisation to manage risks. Control measures may be anticipatory in nature in which case the aim is to prevent the realisation of risks or they may be on an ex-post basis to mitigate the negative impacts arising from the risks. Control measures include technical controls, segregation of duties, checks, physical structures, collection and sharing of information, contractual arrangements and backup arrangements.

Accountability means the obligation to comply with laws and regulations in financial administration, to use available resources as efficiently as possible and to report on their use and the results achieved with the resources.

Internal audit means independent and objective assessment, assurance and consultancy activities intended to provide the organisation with value added and enhance its operations. The purpose of internal audit is to report to the senior management on the appropriateness and adequacy of internal control and to perform the audit tasks ordered by the senior management.

4 Internal control assessment

Assessment of internal control is the responsibility of the agency's senior management. A person or unit coordinating the assessment may be designated to support the practical assessment process. The assessment can be carried out in a number of ways: It can be a self-assessment by the management team, a decentralised self-assessment at different levels of the organisation or an information collection and assessment process supported by experts.

The assessment should be:

1. genuine - not cosmetic
2. systematic - the current state of affairs should be compared against the criteria used in the framework
3. sufficiently detailed - it should cover the essential operational and support functions of the agency's responsibilities
4. documented - key observations and conclusions made during the assessment as well as references to other information sources should be documented
5. approved by senior management - it should provide a basis for assessing the internal control, a senior management responsibility

The assessments can be carried out as part of the day-to-day performance planning and management process. The stages of the assessment are incorporated into the agency's annual planning and monitoring clock so that the assessment and statement of

assurance of internal control can be provided in connection with the report on operations.

Before adopting the assessment framework, agencies should determine its suitability for the assessment of their internal control and adjust it in accordance with their needs, situation and the

languages that are used by the organisations concerned. It is essential that the agencies are able to identify the organisations' development needs in the assessment process.

Agencies can add or remove objectives or revise them, depending on how they prioritise the assessment of internal control of the activities and financial matters designated as their responsibilities. Agencies can also use other assessment scales than those described in the recommendation. Agencies must assess the risks contained in the components designated as their responsibilities.

The answers given as part of the assessments may occasionally contain confidential information and for this reason, agencies may have to apply security classification to the assessment framework.

Agencies should plan the assessment process so that it provides all the information required in the assessment of internal control and the control and management systems. Agencies can reduce their internal administrative burden and costs by carrying out a detailed assessment every three years, while in other years, only the key operating areas and the changes that may be needed are assessed.

5   Content of the assessment and statement of assurance of internal control

The following are the issues that should be considered when the statement is issued:

- Does the agency have adequate and effective assurance procedures and arrangements concerning the legality of the activities and financial administration, compliance with the budget, securing of assets and property, operational performance and the provision of correct and adequate information

  on performance and financial administration and what are the key development needs in these areas?

- Is the view on the financial risks and the risks arising from the agency's operating environment and its activities used as a basis for planning and operating practices up to date or should it be revised?

- Are the definitions of the basic operating and financial processes and the responsibilities and procedures established for them in accordance with the law and other regulations and do they provide a sufficient basis for successful operations?

- Are the basic financial administration processes and procedures in accordance with the State Budget Decree and are they and the responsibilities for them specified in accordance with the requirements contained in the rules of procedure, financial rules and section 69 b of the State Budget Decree?

- Are the EU funds coming under the responsibility of the operating unit properly managed and controlled, and administered in accordance with the EU legislation and national legislation and other regulations supplementing them?

- Do the performance and management accounting meet the requirements laid down in section 55 of the State Budget Decree?

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i Financial and personnel administration process descriptions can be viewed at: http://www.valtiokonttori.fi/prosessikuvaukset (the content is in Finnish). Other key processes that should be taken into account in the agency's operations, such as statute drafting, international matters, steering of the administrative branch and regulation, should also be considered.