

# Monitoring<sup>1</sup>

Internal control systems need to be continuously monitored. This is a process that assesses the quality of a system's performance over time and is accomplished through ongoing monitoring activities or separate evaluations.

Ongoing monitoring activities occur in the course of operations. It includes regular management and supervisory activities and other actions personnel take in performing their duties. The greater the degree and effectiveness of ongoing monitoring, the less need for separate evaluations.

Separate evaluations provide an opportunity to consider the effectiveness of the control components and the continued effectiveness of the ongoing monitoring activities. Typically, these evaluations are performed by departmental management, peer groups or external and internal auditors.

## Ongoing Monitoring Activities

Even the best internal control plan will be unsuccessful if it is not followed. Monitoring allows the manager to identify whether controls are being followed before problems occur. For example, a unit's internal control plan may identify cross-trained staff to perform certain duties if the assigned individual is not available. However, the manager who doesn't monitor this arrangement by asking staff to occasionally perform the back-up duties may discover, too late, that the individual was cross-trained so long ago that substantial changes have occurred and he or she has no idea what to do.

Organizational structure and supervisory activities provide oversight of control functions and identification of deficiencies. For example, clerical activities serving as a control over the accuracy and completeness of transaction processing should be routinely supervised. Also, duties of individuals are divided so that different people serve as a check on each other. This is also a deterrent to employee fraud since it inhibits the ability of an individual to conceal his or her suspect activities.

Managers should also monitor previously identified problems to ensure that they are promptly corrected. In the same way, managers must review weaknesses identified by audits to determine whether related internal controls need revision.

## Separate Evaluations

Separate evaluations can be performed on an entity-wide basis or for a specific high-priority risk. Determining what level of evaluation depends upon the significance of the risks being controlled and the importance of the controls in reducing those risks.

External and internal auditors regularly provide recommendations on the way internal controls can be strengthened. In many entities, auditors focus considerable attention on evaluating the design of internal controls and on testing their effectiveness. Potential

weaknesses are identified, and alternative actions are recommended to management, often accompanied by information useful in making cost-benefit determinations. These audits could be considered both ongoing monitoring activities as well as separate evaluations.

The University is subjected to an entity-wide evaluation as part of the audit of the Annual Financial Report performed by the Auditor General Staff. This evaluation focuses on the high risk areas that would have an impact on financial reporting but does not concentrate specifically on operations or compliance. Their scope of work is geared specifically to assess the system of internal control which is necessary to obtain reasonable assurance about whether the financial statements are free of material misstatement. In order to make this assessment, the auditors utilize checklists, questionnaires and flowcharting techniques. They then perform reviews of transactions for those same processes to prove that the system works as described in the checklists or questionnaires. As a by-product of this audit process the auditors produce a document entitled "Points for Discussion" which lists weaknesses found in the system of internal control as evidenced by the review transactions and a review of the flowcharts/questionnaires. This document provides the University with valuable information on which to base corrective actions.

An example of an evaluation of a high-priority risk might be an internal audit of a department, a process or a specific transaction or series of transactions. This audit process can be very similar to the external financial audit process described above but may focus on all three objectives: financial reporting, operations and compliance. The internal auditors, upon completion of their work, review their findings or the results of the audit with departmental or operational management and solicit action plans for correction of any weaknesses identified. These separate evaluations are a valuable component of an entity's overall monitoring activity.

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<sup>1</sup> Excerpted from Office of the Comptroller, Commonwealth of Massachusetts, *Internal Control Guide for Managers*, pg. 18-19 and Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Integrated Control – Integrated Framework*, (New Jersey: American Institute of Certified Public Accountants, 1994 edition), pg. 69 - 72.