

EFFECTIVE CONTROL



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Difference between Control and Effective Control

- Control :- generally limited to monitor the outcomes of activities and if necessary, taking actions for procuring the desired results.
- Effective Control:- there is already established control system in the organization, requirement for to better it.
- Requirement for to better it because of ...
$$\text{GAP} = \text{REQUIRED CONTROLS} - \text{APPLIED CONTROLS}$$

GAP is caused by

- Interconnectivity of systems – intranet & internet
- Devolution of management control- decentralization
- Growing potential of misuse
- Widespread of technology, elimination of distance, time and space constraints.
- Unevenness of environmental changes
- External factors such as legislative, legal , regulatory requirements.
- Virus attack, extortions, and leakage of corporate information – insider trading

Features of Effective Control

- Competent and trustworthy personnel.
- Segregation of duties – fraud, theft, modification etc.
- Adequate documentation and records.- blueprint, flowchart, policy documents etc.
- Adequate control over assets and records for access .
- Adequate management supervision.
- Independent check on performance- sec 134 ..drs..
Director performance
- Delegation of authority and responsibility.
- Variance check.

Requirements of Effective Control System

- Suitability
- Prompt reporting
- Pointing out exceptions
- Flexible
- Economy
- Suggest remedial actions
- Support of top management
- Based on reasonable assumptions
- Reward and punishment
- Feedback

Problems in Setting Effective Controls

- Easily measured factors receive too much weight while difficult to measure items are not given enough attention.
- Short run factors may be over emphasized at the expense of long run factors.
- Failure to adjust the control system to reflect shifts importance of various activities and goals over time.

Key Enablers for Effective Control

- Enterprise governance- the way BoD manage business operation
- Corporate governance- the way govt want BoD to manage business operation such as companies act, FEMA, competition act, IT act, factory act, regulations of IRDA, SEBI, RBI, TRAI etc.
- Others:- ISO 27001, ISO 9001, COBIT-5, SA, COSO etc.

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Components	Principles	No. of Points of Focus
Control Environment Risk Assessment Control Activities Information & Communication Monitoring Activities	1. Commitment to integrity and ethical values	4
	2. Independent board of directors oversight	5
	3. Structures, reporting lines, authorities, responsibilities	3
	4. Attract, develop and retain competent people	4
	5. People held accountable for internal control	5
	6. Clear objectives specified	5
	7. Risks identified to achievement of objectives	5
	8. Potential for fraud considered	4
	9. Significant changes identified and assessed	3
	10. Control activities selected and developed	6
	11. General IT controls selected and developed	4
	12. Controls deployed through policies and procedures	6
	13. Quality information obtained, generated and used	5
	14. Internal control information internally communicated	4
	15. Internal control information externally communicated	5
	16. Ongoing and/or separate evaluations conducted	7
	17. Internal control deficiencies evaluated and communicated	4