

Foundation of control

[Business](#), [Organization](#)



Organizational control is the process of assigning, evaluating, and regulating resources on an ongoing basis to accomplish an organization's goals. To successfully control an organization, managers need to not only know what the performance standards are, but also figure out how to share that information with employees. [pic][pic] Control can be defined narrowly as the process a manager takes to assure that actual performance conforms to the organization's plan, or more broadly as anything that regulates the process or activity of an organization. The following content follows the general interpretation by defining managerial control as monitoring performance against a plan and then making adjustments either in the plan or in operations as necessary.

The six major purposes of controls are as follows:

- Controls make plans effective. Managers need to measure progress, offer feedback, and direct their teams if they want to succeed.
- Controls make sure that organizational activities are consistent. Policies and procedures help ensure that efforts are integrated.
- Controls make organizations effective. Organizations need controls in place if they want to achieve and accomplish their objectives.
- Controls make organizations efficient.

Efficiency probably depends more on controls than any other management function.

- Controls provide feedback on project status. Not only do they measure progress, but controls also provide feedback to participants as well. Feedback influences behavior and is an essential ingredient in the control process.
- Controls aid in decision making. The ultimate purpose of controls is to help managers make better decisions. Controls make managers aware of problems and give them information that is necessary for decision making.

Many people assert that as the nature of organizations has changed, so must the nature of management controls. New forms of organizations, such as self-organizing organizations, self-managed teams, and network organizations, allow organizations to be more responsive and adaptable in today's rapidly changing world. These forms also cultivate empowerment among employees, much more so than the hierarchical organizations of the past. Some people even claim that management shouldn't exercise any form of control whatsoever, and should only support employee efforts to be fully productive members of organizations and communities. Along those same lines, some experts even use the word “coordinating” in place of “controlling” to avoid sounding coercive. However, some forms of controls must exist for an organization to exist. For an organization to exist, it needs some goal or purpose, or it isn't an organization at all.

Individual behaviors, group behaviors, and all organizational performance must be in line with the strategic focus of the organization. Preventive control An internal control that is used to prevent undesirable events, errors and other occurrences than an organization has determined could have a negative material effect on a process or end product Preventive Controls focus on preventing errors or exceptions. Here are a few examples of preventive controls: 1. Standards, policies and procedures are the most basic type of preventive control. 2. Segregation of duties also acts as a preventive control against fraud. 3.

Authorization / Approval levels also prevent the risk of an illegal act and are thus preventive in nature. Corrective Controls Mechanisms intended to

reduce or eliminate unwanted behaviors or results and thereby return the situation to conformity with the organization's regulations and standards

Example of corrective control measure taken by AEON CO (M) BHD (Better know as JUSCO) 1. Implemented internet based and established " AEON Code of Conduct" website so that international employee can more easily report misconduct without any prejudice. This enables higher level management from AEON JAPAN (HQ) to monitor and take necessary action. Source of Control

The most important and primary sources of control in most organizations are stockholder, organization, groups and individuals. Stakeholder control Stake holders may consist from the group of union, government agencies, customers, share holders even those have interest on company organization well being, basically this group will give direct and indirect pressure to organization to change their behavior and decision.

Organizational control Organizational control is about taking preventive or corrective actions to keep things on track.

The word suggests the operations of checking, testing, regulating, verifying, or adjusting. Managers use control to detect deviations ranging from desirable standards and make appropriate adjustments. The purpose of the control function is always the same: get the job done despite environmental, organizational, and behavioral obstacles and uncertainties. Group control

Group control comprises the norms and values that group or team members and maintain through rewards and punishment. Individual self control

Individual self controls comprise the guiding mechanism that operates consciously and unconsciously within each person. It's main on the individual professionalism and skill that he or she has such as lawyers,

accountant, engineers and etc. Elements of Internal Control Internal control systems operate at different levels of effectiveness.

Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.

Control Environment The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people. Leaders of each department, area or activity establish a local control environment. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include:

- Integrity and ethical values;
- The commitment to competence;
- Leadership philosophy and operating style;
- The way management assigns authority and responsibility, and organizes and develops its people;
- Policies and procedures.

Risk Assessment Every entity faces a variety of risks from external and internal sources that must be assessed.

A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economics, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated

with change. Objectives must be established before administrators can identify and take necessary steps to manage risks. Operations objectives relate to effectiveness and efficiency of the operations, including performance and financial goals and safeguarding resources against loss. Financial reporting objectives pertain to the preparation of reliable published financial statements, including prevention of fraudulent financial reporting. Compliance objectives pertain to laws and regulations which establish minimum standards of behavior.

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated. Managing change requires a constant assessment of risk and the impact on internal controls. Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

Control Activities Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Control activities usually involve two elements: a policy establishing what should be done and

procedures to affect the policy. All policies must be implemented thoughtfully, conscientiously and consistently. Information and Communication Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities.

Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. Monitoring Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance. The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards. Internal control systems change over time. The way controls are applied may evolve. Once effective procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures. Furthermore,

circumstances for which the internal control system was originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks. Components of the Control Activity Internal controls rely on the principle of checks and balances in the workplace.

The following components focus on the control activity: Personnel need to be competent and trustworthy, with clearly established lines of authority and responsibility documented in written job descriptions and procedures manuals. Organizational charts provide a visual presentation of lines of authority and periodic updates of job descriptions ensures that employees are aware of the duties they are expected to perform. Authorization Procedures need to include a thorough review of supporting information to verify the propriety and validity of transactions. Approval authority is to be commensurate with the nature and significance of the transactions and in compliance with University policy. Segregation of Duties reduces the likelihood of errors and irregularities. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and record keeping. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties.

This helps detect errors in a timely manner and deter improper activities; and at the same time, it should be devised to prompt operational efficiency and allow for effective communications. Physical Restrictions are the most

important type of protective measures for safeguarding company assets, processes and data. Documentation and Record Retention is to provide reasonable assurance that all information and transactions of value are accurately recorded and retained. Records are to be maintained and controlled in accordance with the established retention period and properly disposed of in accordance with established procedures. Monitoring Operations is essential to verify that controls are operating properly. Reconciliations, confirmations, and exception reports can provide this type of information. Internal Control Limitations There is no such thing as a perfect control system.

Staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved. A limited inherent in any system is the element of human error, misunderstandings, fatigue and stress. Employees are to be encouraged to take earned vacation time in order to improve operations through cross training while enabling employees to overcome or avoid stress and fatigue. The cost of implementing a specific control should not exceed the expected benefit of the control. Sometimes there is no out-of-pocket costs to establish an adequate control. A realignment of duty assignments may be all that is necessary to accomplish the objective. In analyzing the pertinent costs and benefits, managers also need to consider the possible ramifications for the company at large and attempt to identify and weigh the intangible as well as the tangible consequences.

Internal controls should reduce the risks associated with undetected errors or irregularities, but designing and establishing effective internal controls is not always a simple task and cannot always be accomplished through a short set of quick fixes. Corrective Control Model Corrective actions/control are steps that are taken to remove the causes of an existing nonconformity or undesirable situation. The corrective control process is designed to prevent the recurrence of nonconformities or undesirable situations. It tries to make sure that existing nonconformities and situations don't happen again. It tries to prevent recurrence by eliminating causes. Corrective actions address actual problems. Because of this, the corrective action process can be thought of as a problem solving process.

[pic]Note: Corrective control model relies heavily on information feedback and its responses to it. Define the System It's about clarification on the purpose of the projects which is engaged to and requires to get basic understanding of the process that to be improved and to establish estimates timeline and costs. This mainly focuses on inputs, transformation process or output with considering the nature of organization. Identifying Key Characteristics It's require to obtained key information needed for overall process and to chose the standard that need to measured. The most important point if any cause to failure in controlling important standards will influence the final results therefore needs to have priorities Set standards Standard is required by evaluating qualifications and quantitative standards It's should be set for each and every measured standards based on two major factors: 1. Cultural influences 2. Performances standard Collect information Information is very important to gather either manually or

automatically It could be based on system calculation or based on feedback and any other forms of information Make comparison Making comparison is very much needed to understand what is happening and what should be happening.

We need to evaluate actual results with performances standards, so that we able to make good comparison and reflect in decision making. Diagnose and correct the problem It's important to assess any types and causes of deviations from standard Action can be taken to eliminate those deviations and correct problem.