

Internal control systems: definition, components, features

[Business](#), [Management](#)



Businesses, whether big or small, play a vital role in the economic development of a community. They serve as the fuel that ignite and keep the engine of economic development running by providing jobs that enable members of the community to earn money. The income that employees earned is used to acquire products and services made by businesses that propel the economic activities to cycle around. Without the presence of businesses in the community, the economy within the area would become inefficient and stagnant. Establishing a business will demand a significant amount of capital which would be hard to produce especially for the less privileged members of the community. However, individual members of the community can act together and contribute financial resources even in small amounts. The small amounts contributed by individual members of the community can be pooled together to produce the required capitalization for the establishment of a small business which can be specifically called a cooperative.

Republic Act 9520 which was enacted on February 17, 2009 amended the Cooperative Code of the Philippines to be known as the “ Philippine Cooperative Code of 2008” defines cooperative as an involvement of people who share the same kind of concern, freely coming in together for the attainment of their social, economic, and cultural targets by making rightful contributions to the capital requirement, buying and using their products and services, and having a reasonable share of the gains and losses of the endeavor in compliance to accepted cooperative principles. Such association is separate and duly registered. The State recognizes the importance of establishing cooperatives as illustrated under Article 2 of the code by

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encouraging their creation and growth as a realistic tool for endorsing self-sufficiency and employing the power of the people towards the achievement of economic development and social justice. The government encourages the private sector to venture into the actual assembly of cooperatives and shall produce an environment which is beneficial to the betterment of cooperatives. Cooperatives, with proper monitoring and support from the government, can be an intrinsic component towards economic growth because of their power to mobilize savings and capital which can serve as inputs in the production of goods and services for the less privileged members of the community. However, similar with any other forms business undertakings, cooperatives may be exposed to risks that may adversely affect their operations. Possible risks that may be encountered could be strategic, compliance, financial and operational.

The emergence of such risks has led to improved drive for an efficient risk management and polished governance. These situations make it fundamental to synchronize every aspect or processes in the business in ethical, effective and efficient ways which can be achieved with an effective internal control system in the organization. Internal controls involve methods in which an organization protects and ensure that it has control over routine accounting processes and that the processes are being followed which help in safeguarding resources against potential fraud and unauthorized use. These controls are good preventive measures against fraudulent intentions that may adversely affect organizational operations. Without internal controls, an organization operates inefficiently, in an unreliable manner and

non-compliant with applicable laws and regulations. The absence of internal controls or their ineffective implementation exposes any business organization to potential risks such as improper recording of business activities, effecting unauthorized transactions and frauds, among others. This is because poor internal control permits or even promotes the commission of fraud as it creates opportunities for fraud perpetrators. These incidents impact the organizational productivity and competitiveness which deter the entity's growth and sustainability.