

## Introduction

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework defines Internal Control as ‘a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.’”

The Institute of Internal Auditors (IIA) also defines Internal Control to be “any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.”

The Nigerian code of corporate governance buttresses the importance of an effective and efficient Internal Control system and requires every company to develop and maintain one.

### Importance of Internal Control for Small businesses

As a business, it is important to put measures in place that can protect the financial data of the business, ensure operational excellence, drive internal efficiency and compliance to regulations. Internal controls are also important for the following reason:

- **Reliability of financial reporting**

Internal control within a business ensure that financial information is reliable and free from errors by acting as a high level check of such information, to detect mis-statements, irregularities, errors and cases of suspected theft and fraud. A business with an effective internal control system also gives reasonable assurance of these financial information and a level of comfort on its reliability to external auditors.

- **Operational excellence and internal efficiency**

When internal controls exist in a small business and is working right, the business tends to operate more efficiently and effectively, by implementing processes, policies, protocols and procedures to guarantee internal efficiency. Internal controls can be regarded as the “behind-the-scenes” that ensures the company excels outwardly, resulting in a robust bottom-line.

- **Compliance with applicable laws and regulations**

As a business, there are several regulations that exist within the business environment, be it federal, state or

local regulations which if not complied with, can result in a regulatory risk for the business. Therefore, internal control within a business will ensure that the various laws and regulations are being met with full compliance as and when due to avoid the company being slammed with charges, penalties, court actions and consequently, prevent a situation of regulatory risk which could lead to reputation risk causing a disadvantage to the business.

- **Safeguarding of assets**

Every business has assets which are employed in generating income for it. Internal controls within a business ensures that these assets are safeguarded through the implementation of processes to prevent theft, fraud, ensure assets are being utilized solely for company’s purpose, monitor those charged with the custody of such assets.

- **Prevent theft and fraud**

One internal risk a small business is likely to face because of their structure is theft and fraud, especially employee fraud. Establishing internal controls can help prevent theft and fraud. Internal controls such as reconciliations of various reports, high-level reviews, pre- and post-payment audits of expenses can uncover if company funds are being misappropriated by management or employees.

- **Provide assurance for the accomplishment of goals and objectives**

Every small business has goals and objectives, either short or long term in nature with the aim of profitability and sustainability in business. Establishing and implementing good internal controls in a small business provide assurance that a business is on track in achieving its goals and objectives. By establishing an environment that enhances productivity level of employees through processes and procedures, assessing risks involved in projects and providing mitigants through control activities contributes towards accomplishment of small businesses goals.

Small businesses would be making the wisest decision to effect internal controls. Every business that has a long-term vision for its operation would be able to achieve these when the right processes are put in place.

