

The Board's Role With Regards to Internal Controls

The CSA's National Policy 58-201 "Corporate Governance Guidelines" states that "*the board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for the issuer's **internal control** and management information systems*".

The question facing boards, therefore, is: what does internal control encompass and how should the board address its responsibilities for it?

The CICA offers the following definition of control¹:

Control comprises those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization's objectives. These objectives may fall into one or more of the following general categories:

- **Effectiveness and efficiency of operations** includes objectives related to an organization's goals, such as customer service, the safeguarding and efficient use of resources, profitability and meeting social obligations. This includes the safeguarding of the organization's resources from inappropriate use or loss and ensuring that liabilities are identified and managed.
- **Reliability of internal and external reporting** includes objectives related to matters such as the maintenance of proper accounting records, the reliability of information used within the organization and of information published for third parties. This includes the protection of records against two main types of fraud: the concealment of theft and the distortion of results.
- **Compliance with applicable laws and regulations and internal policies** includes objectives related to ensuring that the organization's affairs are conducted in accordance with legal and regulatory obligations and internal policies.

In performing their duties, boards take a broad view of control and ensure that they provide oversight of all aspects of the control environment, and do not concentrate solely on internal control.

Taking such a view on control would require boards to provide oversight of disclosure controls and procedures – the controls pertaining to all reports, documents and filings the organization is required to provide under securities legislation. Internal control over financial reporting is a subset of disclosure controls and procedures, since they are related to the preparation and filing of financial statements, required under securities laws and regulations.

Effective control is as much a function of the corporate culture as it is of rules, regulations and compliance processes. Therefore, the tone at the top, as established by the C-suite, has a significant impact on control processes and procedures.

The control environment is shaped by the expectations set by the board and the "tone at the top" established by the CEO and senior management. It has a lot to do with the integrity of the CEO and other executive officers and their commitment to ethical behaviour.

¹The Canadian Institute of Chartered Accountants, Guidance of the Criteria of Control Board, Guidance on Control: The Nature of Control, paragraph 6