The term "internal controls" may conjure thoughts of large corporations adhering to federal regulations. The reality, though, is that internal controls can provide risk management, business value, and guidance regardless of whether or not they're government-mandated. Formalized systems benefit nearly all companies. And as we polled attendees of a recent Dbriefs webcast*, it became clear that private companies are starting to take note.

40% of respondents said it’s likely or very likely that the respondent would start discussions on internal controls at their company in the next 12 months.

A formalized system of internal controls is an integral part of private company operations. Strategic internal controls can help executives and investors effectively manage financial and operational risk and add business value. So what’s holding many back from implementing them?

47% say limited time and resources are the most significant barriers to performing a risk assessment or implementing internal controls.

Limited resources—client and financial—are a common challenge for private companies. Many simply do not have enough back-office accounting staff with the skills required to develop and maintain a formal internal controls system. This can lead to a sort of vicious cycle. Companies with too few back-office employees lack the resources to put together a proper system of controls, so they engage in risk-based risk avoidance, repeatedly, and using the inadequate financial and operational information that controls are designed to identify.

With time and resources in short supply, some private companies are taking a more risk-based approach that allows management to focus on their accounts or processes that are the most crucial to the business and its stakeholders.

40% have either designed internal controls that are not clearly documented, or not designed any at all.

While some private companies are performing some sort of internal control procedures and others are doing nothing, the lack of formalization calls into question the controls’ effectiveness:

- How does management know what risks are being addressed?
- What are the criteria for investigation of variances?
- Who reviews and approves transactions or journal entries?
- A lack of formal documentation can put the system of internal controls in jeopardy. It can lead to a lack of continuity in the process and increased risk.
- For example, if a control’s owner leaves the company, will someone else know how to execute it?

If it’s not formalized, it’s not fully functional.

A formalized internal controls system tailored to your private company can help mitigate risks, add business value, and guide executives and investors. And a company-wide, firm system doesn’t have to be overly complicated. A risk assessment can help you identify which of your company’s critical processes pose significant risks. From there, internal controls can be designed to address your company’s specific risks and provide management with the specific information they need.

If your private company won’t formalized internal controls, it may be being put at risk. Are you ready to take control?

* The individuals responding to the poll spanned several industry sectors and included professionals at job levels including C-suite, executives (e.g., VP, board), managers, and analysts.