

Preface

In recent years, there have been increasing demands for improved governance and control of all types of organisations. Quite understandably, different stakeholders have differing views both about what should be achieved and how. To some, it seems a simple matter of truthful reporting, sometimes disregarding the problems of objective valuation in an uncertain world. To others, it is more a matter of avoiding fraud and questionable reward systems. Many link improved control to management of the risks facing the organisation. Others ask whether organisations, their boards and their management really have incentives to act in the best interests of their owners. Shareholders expect them to develop and exploit the organisation's assets in an optimal way, as probably do employees and other stakeholders. Today, such assets include market positions, brand names, available talent and other immaterial assets as well as more traditional ones such as plants, equipment and financial positions. Governance and control should encourage strategically appropriate actions and risk-taking that is reasonable and well considered. How can all these aims be achieved? And should they all be included in what we call *internal control*?

This book by Olof Arwinge is almost entirely based on his licentiate thesis for which we served as thesis advisors. An important aim for Olof's work was to clarify the origins and alternative interpretations given to the concept 'internal control'. It turned out to be older than we had expected, and its alternative contents – more or less those we described in the previous paragraph – were also suggested early in its history. At least from the mid-1950s, from time to time there has been a debate about what should be achieved for internal control to be considered good or even adequate.

Why then is this issue receiving more attention than ever now, a half century later?

We believe it has to do with increasing awareness that competitiveness or even survival is becoming more complex, as most organisations, at least in Europe and the USA, depend heavily on rapidly changing markets, both for demand and supply. Their developments are hard to predict, yet preparing for future scenarios through development efforts, new learning and investments may take longer than before.

The resulting risks are huge, exacerbated through uncertainties about protection of immaterial assets such as intellectual property and reputation.

As a consequence, we see even organisations with leading positions in their industries lose their grip, disappointing owners and employees. In such situations, it is natural to question the actions of boards and management. Did they know enough? Did they really act as stewards of the interests they should represent? Or was something wrong with internal information, processes and incentives?

Internal control thus becomes more difficult at the same time as it is more important. Its scope and what reasonably can be expected from it need to be discussed. For this purpose, we instigated a research programme with an advisory board consisting of representatives of The IIA's Swedish chapter and Far, the professional institute for public accountants and other accountancy professionals in Sweden. This programme is financed – including funding for the final stage of completing and publishing Olof's licentiate thesis – by the research foundation of Jan Wallander and Tom Hedelius as well as that of Tore Browaldh.

This book provides an up-to-date summary of the emergence and use of the term *internal control* in the literature, and an analysis of some themes concerning how it can be designed and used. Like with all academic dissertations in Sweden, this book is the work of its author and does not necessarily represent the views of his advisors or of the practitioners on the programme's advisory board. It has, however, already led to valuable discussions among researchers and practitioners in Sweden and will certainly continue to do so now that the programme has continued with additional projects.

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