1. LEARNING OBJECTIVES & INTRODUCTIONS

Notes on Opening Remarks

At the conclusion of the seminar, you will be able to

- Identify controls
- Classify controls
- Assess control adequacy and effectiveness

Seminar Agenda

1. Introductions & Learning Objectives
2. COSO Internal Control Refresher
3. Risk Assessment Basics and Refresher
4. Identifying and Documenting Controls
5. Assessing the Adequacy of Control Design
6. Assessing the Effectiveness of Internal Controls
7. Wrap Up

Risk is…

Facilitator: Raven Catlin
Location: Virtual
info@ravenglobaltraining.com

2. COSO INTERNAL CONTROL REFRESHER

COSO Control Objectives SCARES Management
SCARES

S (Strategic)

C (Compliance)

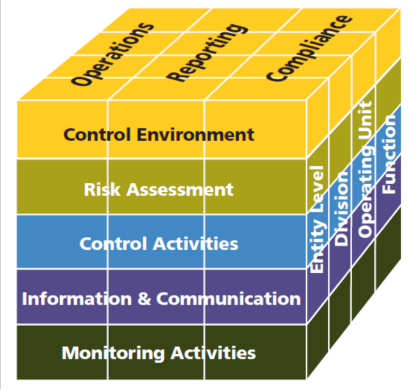
A (Achievement of performance measures)

R (Reliable reporting)

E (Efficient and Effective Operations)

S (Safeguarding of Assets)

Integrated COSO Cube:



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Location: Virtual
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COSO Principles

Control Environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities	13.Selects and develops control activities 14.Selects and develops general controls over technology 15.Deploys through policies and procedures
Information & Communication	13.Uses relevant information 14.Communicates internally 15.Communicates externally
Monitoring Activities	16.Conducts ongoing and/or separate evaluations 17.Evaluates and communicates deficiencies

Control Environment

Risk Assessment

Control Activities

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Location: Virtual
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Information & Communication

Monitoring

3. RISK ASSESSMENT BASICS AND REFRESHER

The 3 Pillars of Managing Risks and Auditing Controls are:

1. Business Objectives

2. Risks

3. Controls

Inherent Risk

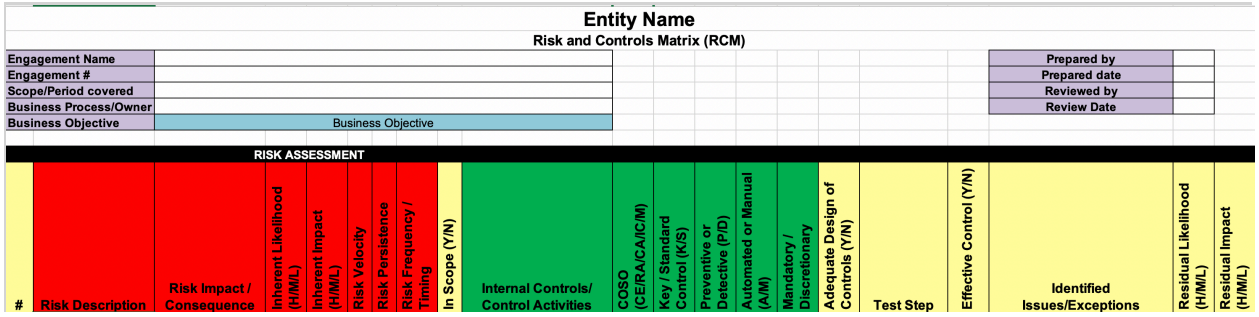
Residual Risk

Risk Thinking Requires

C

T

Risk Assessment May Be



Entity Name

Risk and Controls Matrix (RCM)

Engagement Name		Prepared by	
Engagement #		Prepared date	
Scope/Period covered		Reviewed by	
Business Process/Owner		Review Date	
Business Objective	Business Objective		

RISK ASSESSMENT																				
#	Risk Description	Risk Impact / Consequence	Inherent Likelihood (H/M/L)	Inherent Impact (H/M/L)	Risk Velocity	Risk Persistence	Risk Frequency / Timing	In Scope (Y/N)	Internal Controls/ Control Activities	COSO (CE/RA/CA/IC/M)	Key / Standard Control (K/S)	Preventive or Detective (P/D)	Automated or Manual (A/M)	Mandatory / Discretionary	Adequate Design of Controls (Y/N)	Test Step	Effective Control (Y/N)	Identified Issues/Exceptions	Residual Likelihood (H/M/L)	Residual Impact (H/M/L)

Assessment Factors are determined by each entity. Each entity decides how it will assess risk. We use:

Likelihood is the Probability of Occurrence. Our model considers the following in the assessment of likelihood:

Impact is the consequence or effect experienced if the risk were to occur. In short, how bad would it hurt?

Singular vs Dual Assessment:

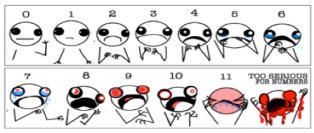
Likelihood

- 1% – 100% scale
- Complexity
- Volume
- Manual processing
- Judgment
- Regulatory scrutiny

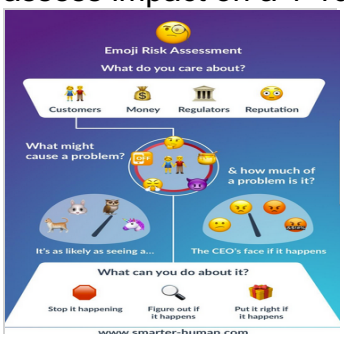
Impact

- Financial
- Regulatory
- Reputation
- Customer
- Operational
- Strategic

1	Extremely unlikely – 1x every 50 years
2	Unlikely – 1x every 10 years
3	Likely – 1x every 5 years
4	Probable - annually
5	Expected - monthly



At Raven Global Training, we recommend a dual approach for each risk assessed. We assess Likelihood first on a 1-100% scale then use a multifactor consequence model to assess impact on a 1-10 scale.



You can present risk using a heat map.

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Location: Virtual
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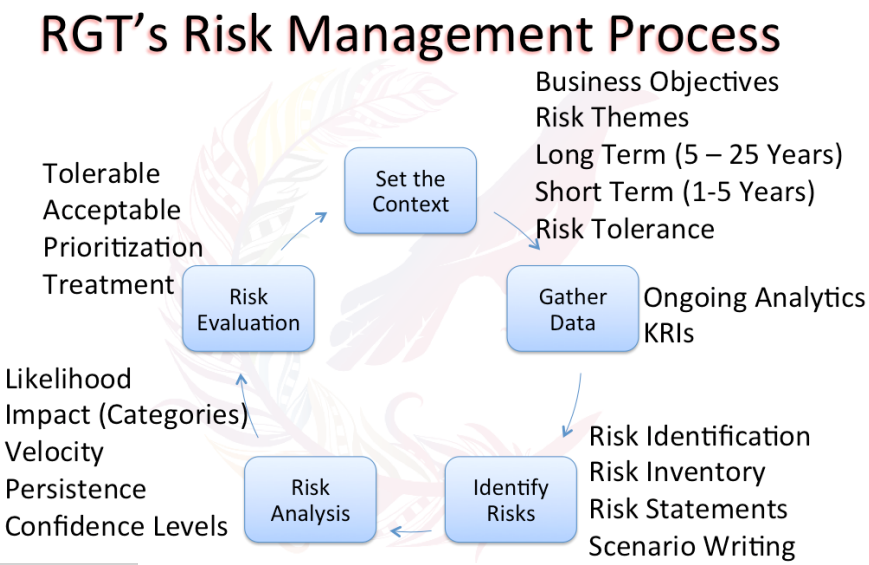
My 3 Nuggets For COSO and Risk Assessment

1 _____

2 _____

3 _____

4. IDENTIFYING AND DOCUMENTING CONTROLS



Controls are:

_____

_____

Process Step vs. Control: Internal Auditors test control design and effectiveness. We need to focus on testing actual controls and not process steps / tasks / activities simply because we can or they are easy to test. I can use the following to determine if something is a control:

_____

_____

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Control Classifications also aid in evaluating control design adequacy:

- Entity level v. Process / Activity / Transaction level
- Key v. Standard / compensating or mitigating
- Manual v. Automated
- Hard v. Soft
- Preventive v. Detective / Corrective
- Discretionary v. Nondiscretionary (mandatory)
- Redundant
- Complementary
- Control owner / roles

Key controls are :

_____

_____

_____

My 3 Nuggets For Identifying and Documenting Controls

1 _____

2 _____

3 _____

5. ASSESS THE ADEQUACY OF CONTROL DESIGN

We can assess the adequacy of control design at different control levels:

Entity Level: Starts with strategic objectives

Process Level: Starts with operational and tactical objectives

Risk Level: Starts at the risk level with consideration for risk appetite

Individual Level: Starts with the control itself and should tie the control with the objectives and risks

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Location: Virtual
info@ravenglobaltraining.com

Well written control statements include the following

Who?

What?

When?

Where?

Why?

How?

How often?

Weaker	Stronger

My 3 Nuggets For Assessing Design of Controls

1 _____

2 _____

3 _____

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Location: Virtual
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9. ASSESSING THE EFFECTIVENESS OF INTERNAL CONTROLS

I can test one when…

_____

_____

_____

We use sampling when we cannot test the entire population of transactions. OR when…

_____

_____

_____

We should determine the expected error rate / exceptions before we begin testing. What is the number or percentage of allowable exceptions?

_____

_____

Sampling Methods
Non-Statistical v. Statistical

_____

_____

Risk and control expectations drive sampling method

_____

_____

My 3 Nuggets For Assessing Effectiveness of Controls

1 _____

2 _____

3 _____

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Location: Virtual
info@ravenglobaltraining.com

Notes

My Top 10 Take-Aways

1

2

3

4

5

6

7

8

9

10

Facilitator: Raven Catlin
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info@ravenglobaltraining.com