



LHS

Control Self Assessment

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The Problem

- Need for senior management assurance on internal control
- Need for objective review of management's representations
- Limited internal audit resources
- Changing business environment
- Changing statutory compliance requirements
- Changing regulatory requirements



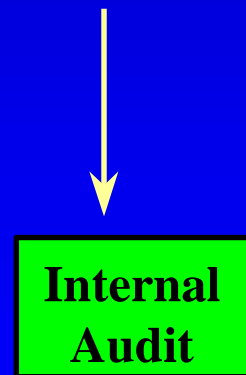
The Conundrum



Do you seriously expect to audit

← this

with this?



without help?



What is CSA?

- Risk identification
- Materiality assessment
- Control identification
- Control implementation
- Re-assessment

By the staff!

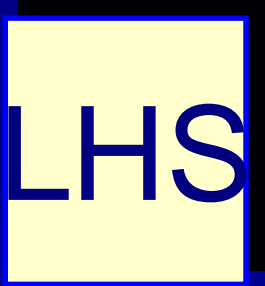




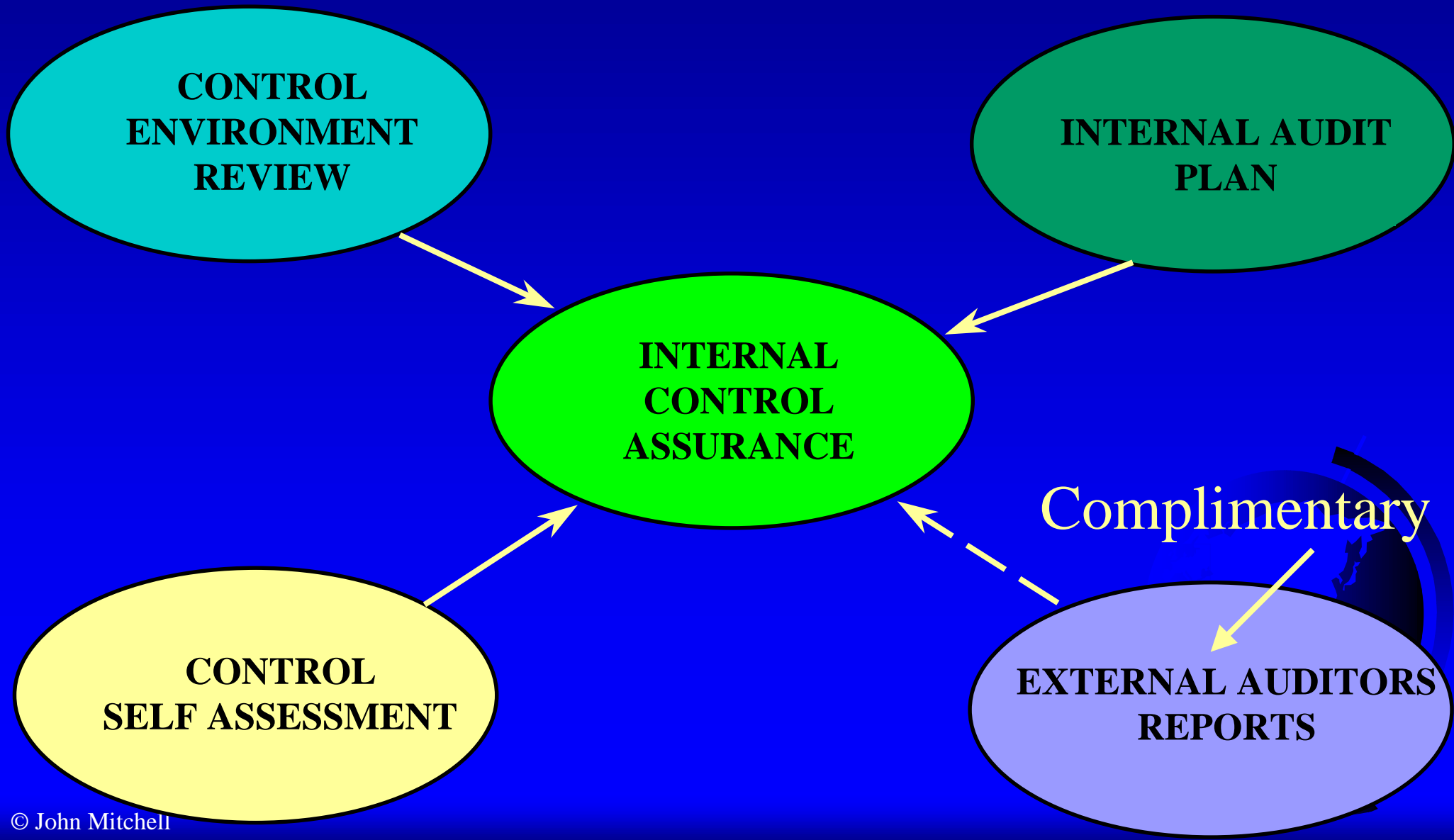
The link between CSA and the statement on internal control

- Management identify the major risk areas
- Internal Audit help management to identify the appropriate controls
- Management assess themselves with regard to performance of the controls
- Management assert that they are well controlled, or agree to fix the problem
- Audit monitor the process for accuracy and inform the Board on the reliability of management's assertions

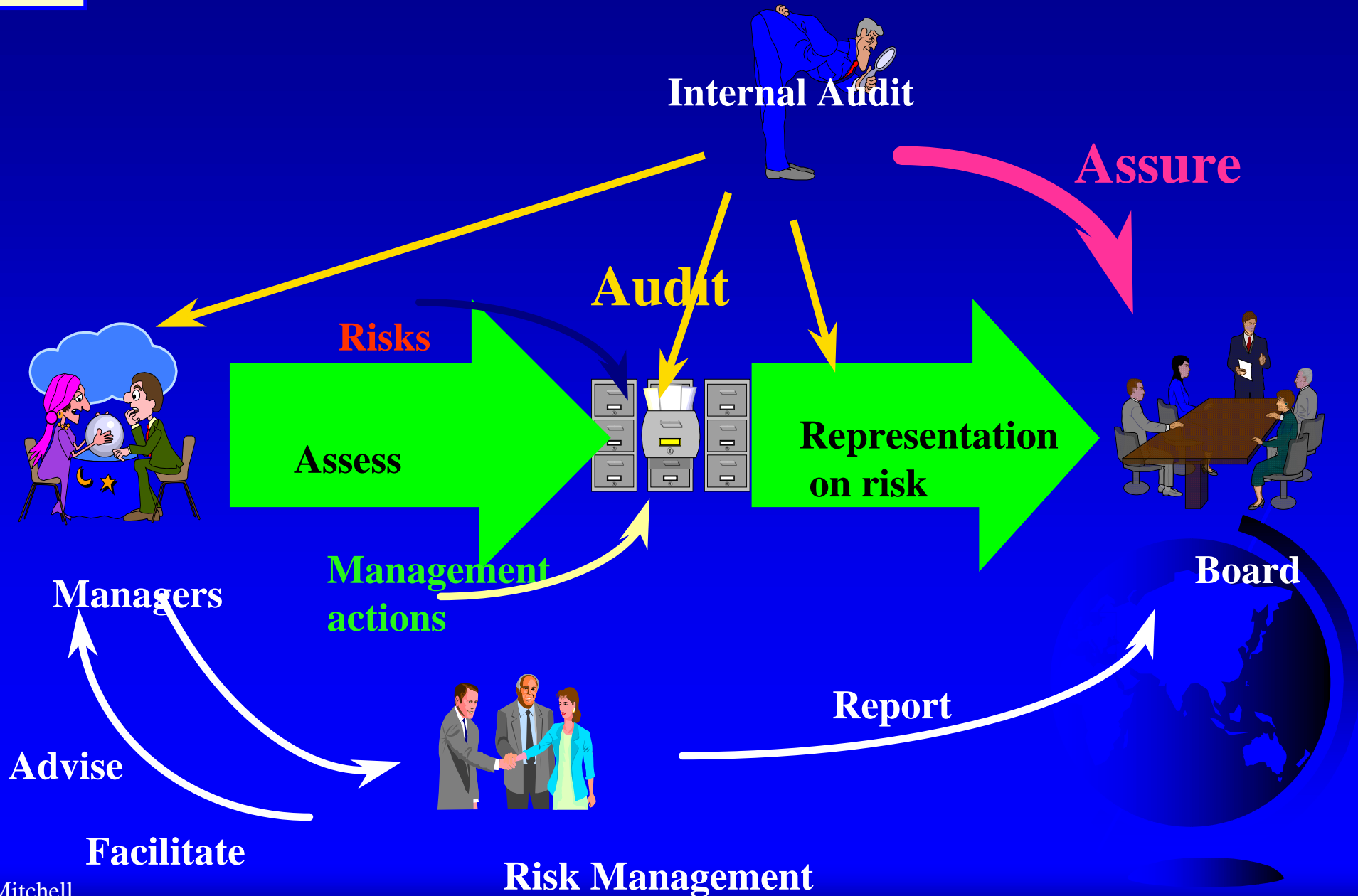




CSA and the Control Assurance Programme



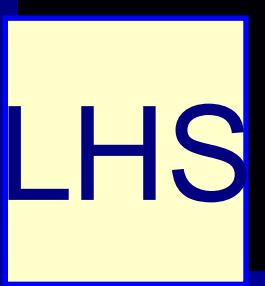
Risk Based Audit Approach



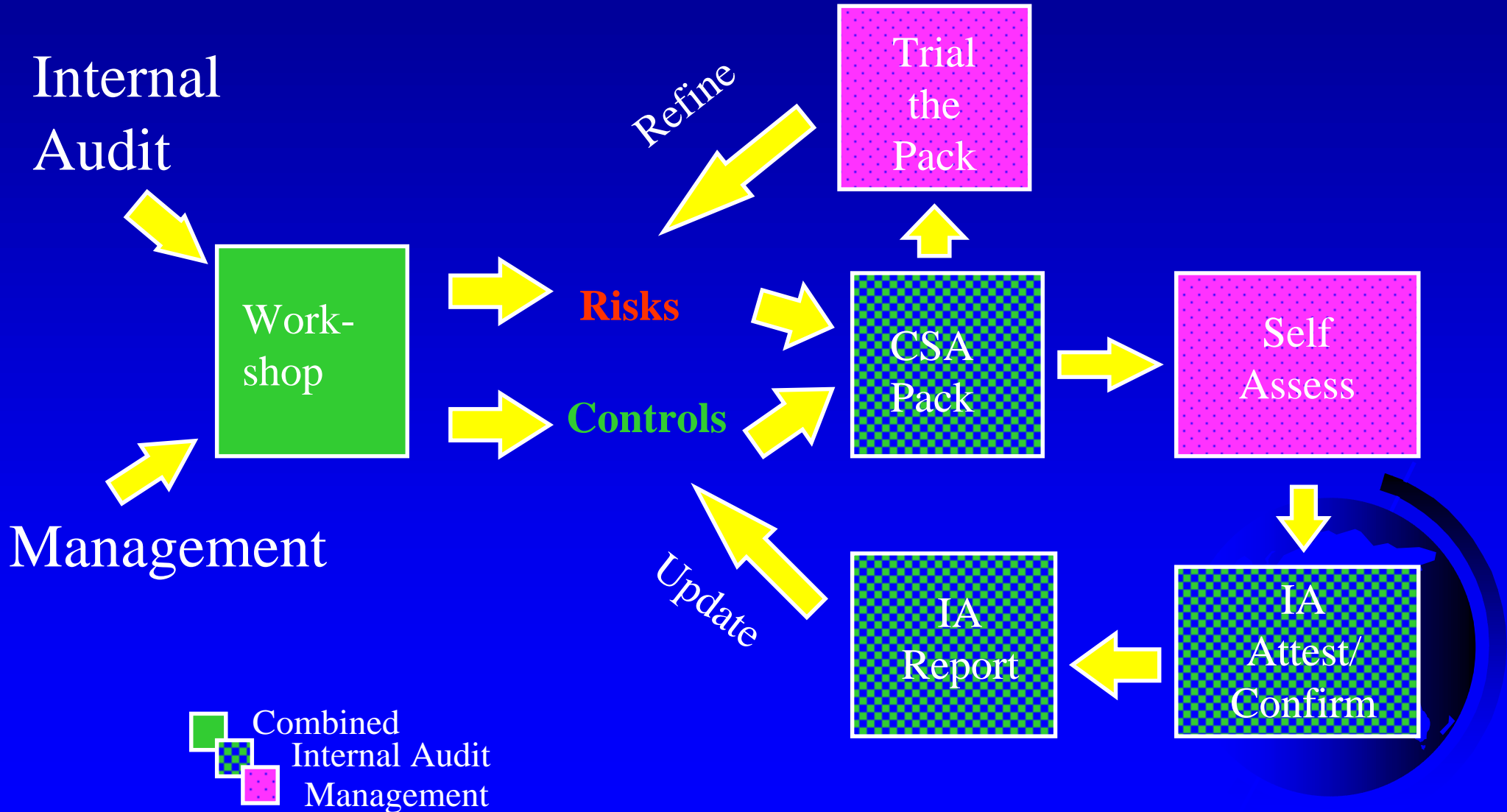
The Process

- Hold workshop to:
 - ◆ Establish risks in a particular area
 - ◆ Decide on the minimum control set needed to mitigate the risks (terminate, treat, transfer, tolerate)
- Internal Audit prepares draft CSA pack based on workshop outcome
- Management trial the draft pack in selected areas

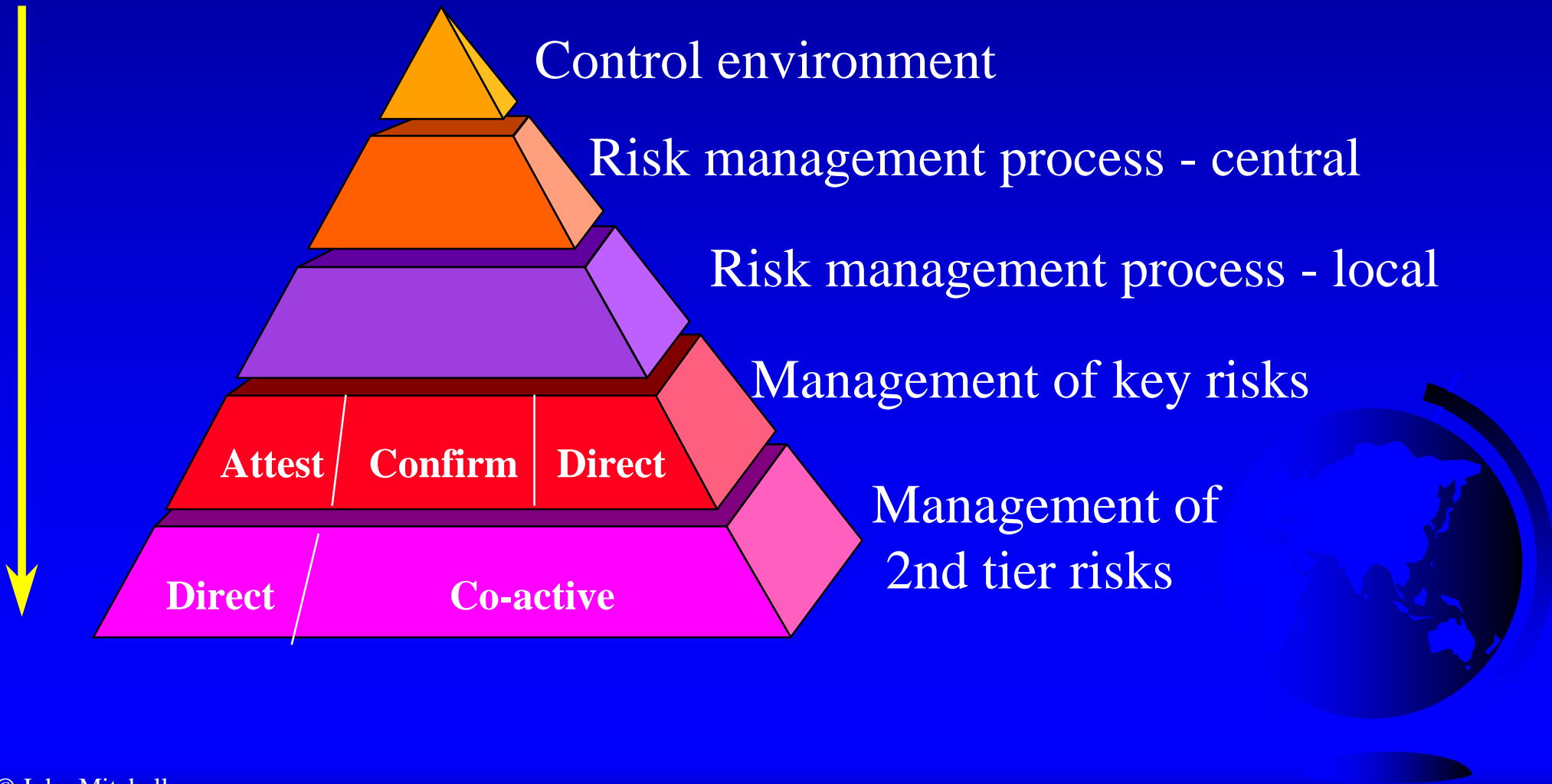


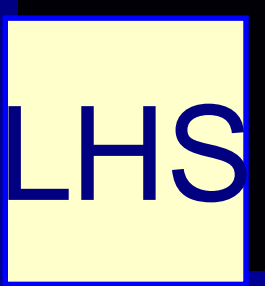


Control Self Assessment Development Process



Audit Hierarchy





What is the Control Environment?

- It's the framework within which your business entity pursues its objectives
- If the framework is strong then the entity is more likely to meet its objectives
- The framework will be strong if there exists:
 - a clearly defined purpose (strategy)
 - the capability to meet the purpose (structure, processes, resources, knowledge)
 - a commitment by all staff (culture to do things)
 - a continuous improvement process (monitoring & learning)





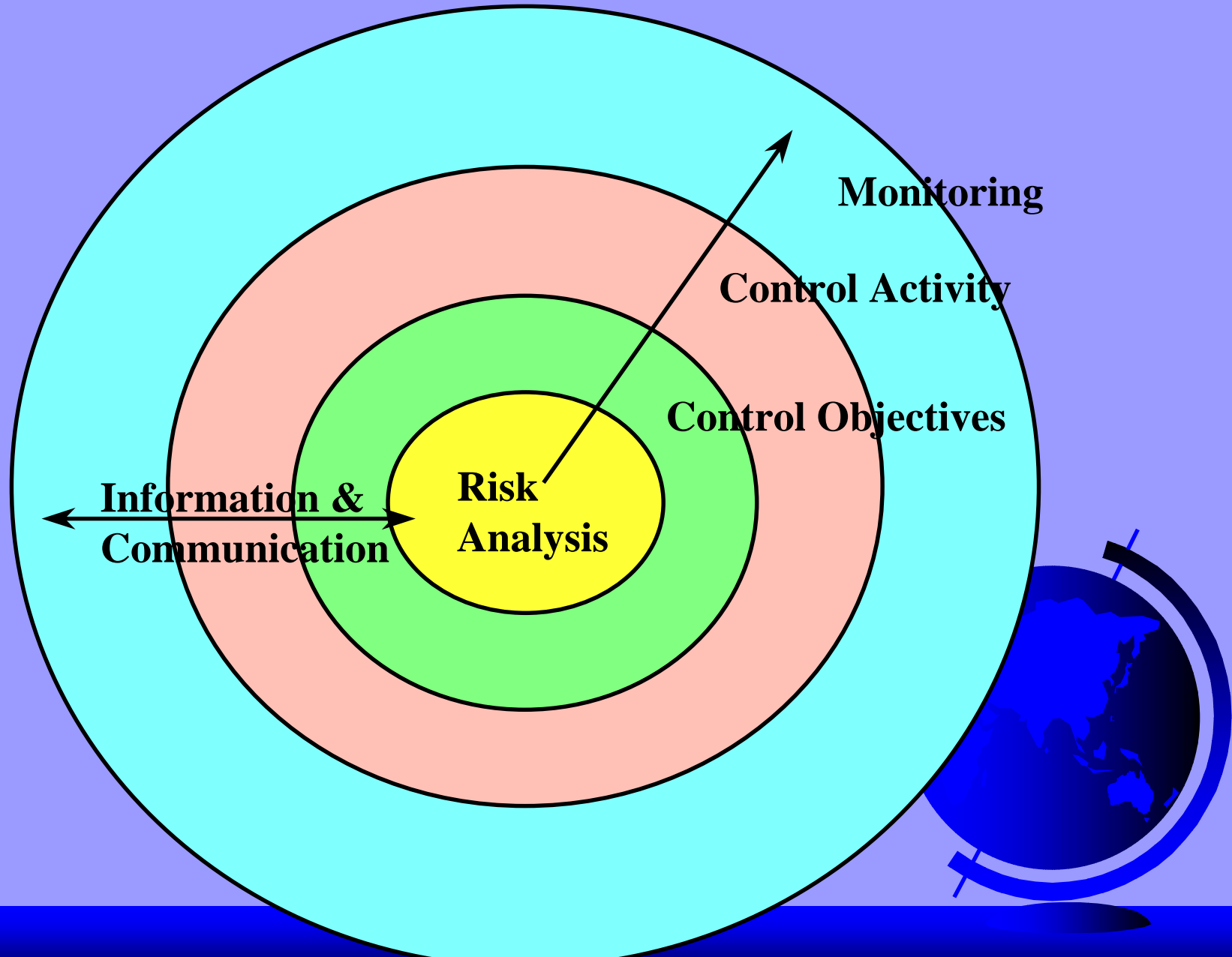
The Importance of the Control Environment

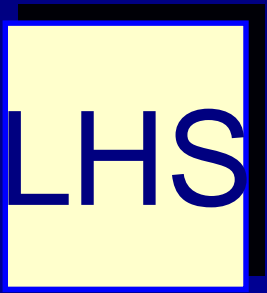
- Mr. Rusnak circumvented the controls that were intended to prevent any such fraud by manipulating the **weak control environment** in Allfirst's treasury; notably, he found ways of circumventing changes in control procedures throughout the period of his fraud.
- Mr. Rusnak's bogus options were designed to exploit **weaknesses in the control environment** around him.
- The unfortunate story of Mr. Rusnak's fraud came as the result of numerous **deficiencies in the control environment** at Allfirst treasury. No **single deficiency** can be said to have caused the entire loss.

Source: Allied Irish Bank report



Components of the Control Environment





Criteria of Control (CoCo) Assessment Model

■ Purpose

- your ability to establish and communicate objectives for the business unit and for individuals that are consistent and focused

■ Capability

- your capability to achieve objectives by making decisions using appropriate experience, qualifications, tools and information

■ Commitment

- your commitment to the agreed objectives by assessing morale and other factors, such as the company's ability to reward people fairly

■ Learning

- your effectiveness at monitoring performance and learning from mistakes

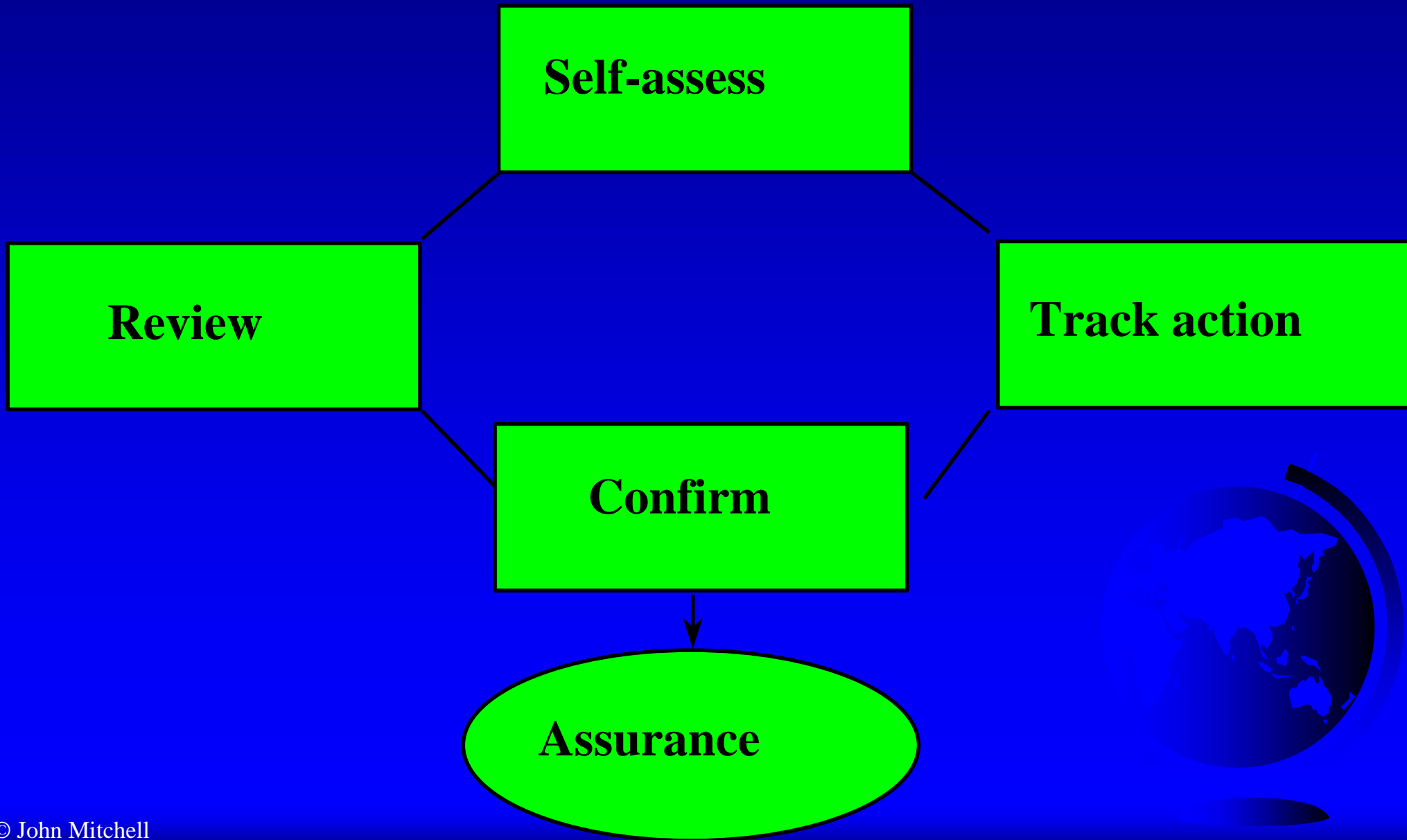


Depth of Auditing

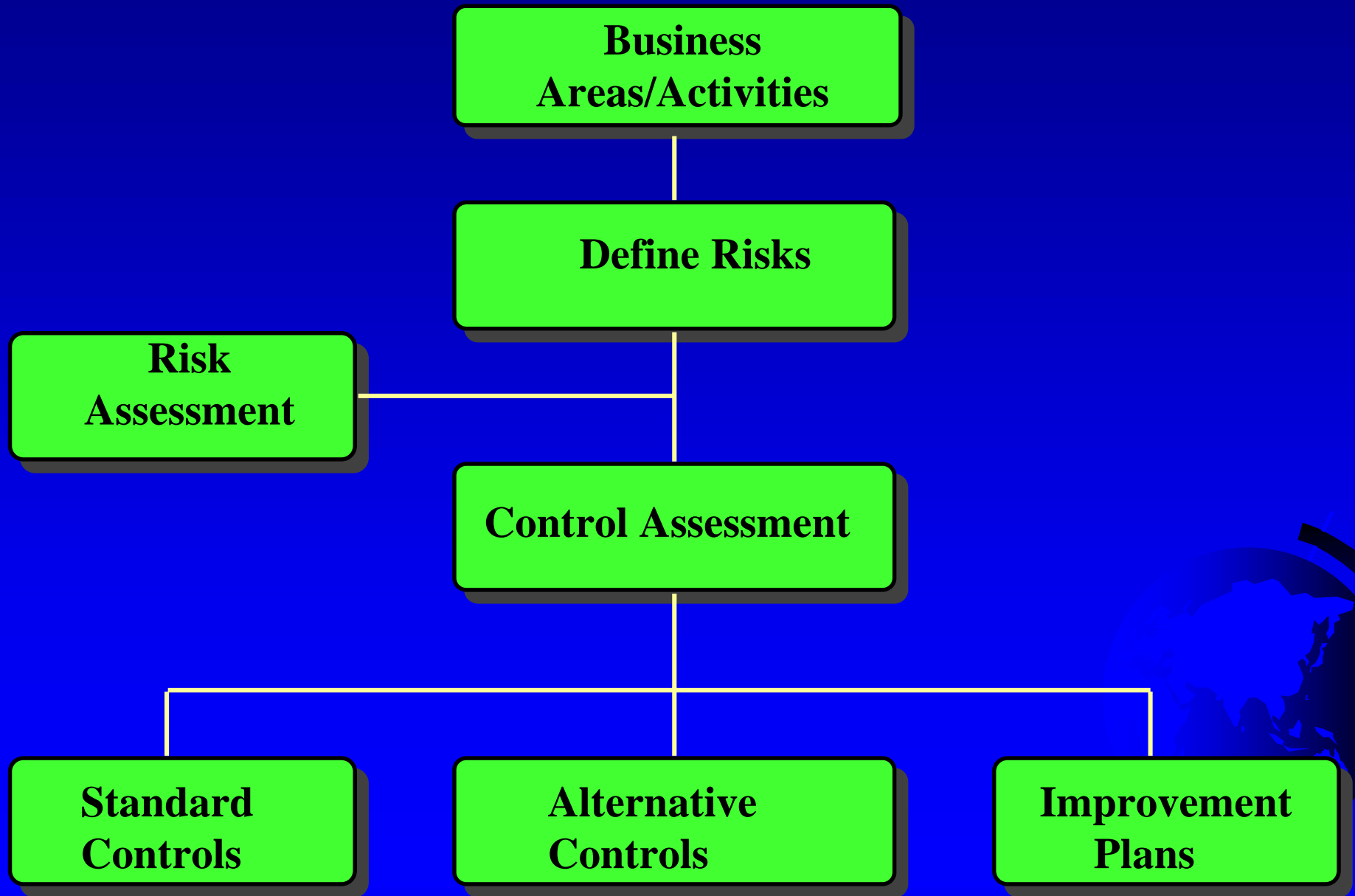
The control environment scoring determines the depth of audit work required to provide assurance to senior management

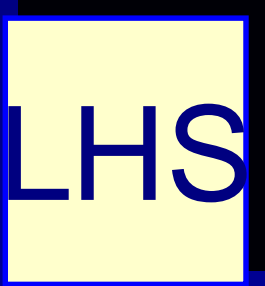


CSA Principles



CSA Package Structure





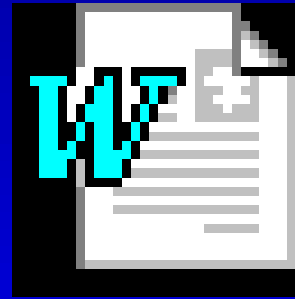
Completing the CSA Questionnaire

- 1) Identify Business Area/Objective
- 2) Define risk
- 3) Indicate compliance with standard controls,
OR
Describe alternative controls where appropriate
- 4) Score effectiveness of control
- 5) Detail improvement action plan if necessary



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CSA Questionnaire



Microsoft Word
Document

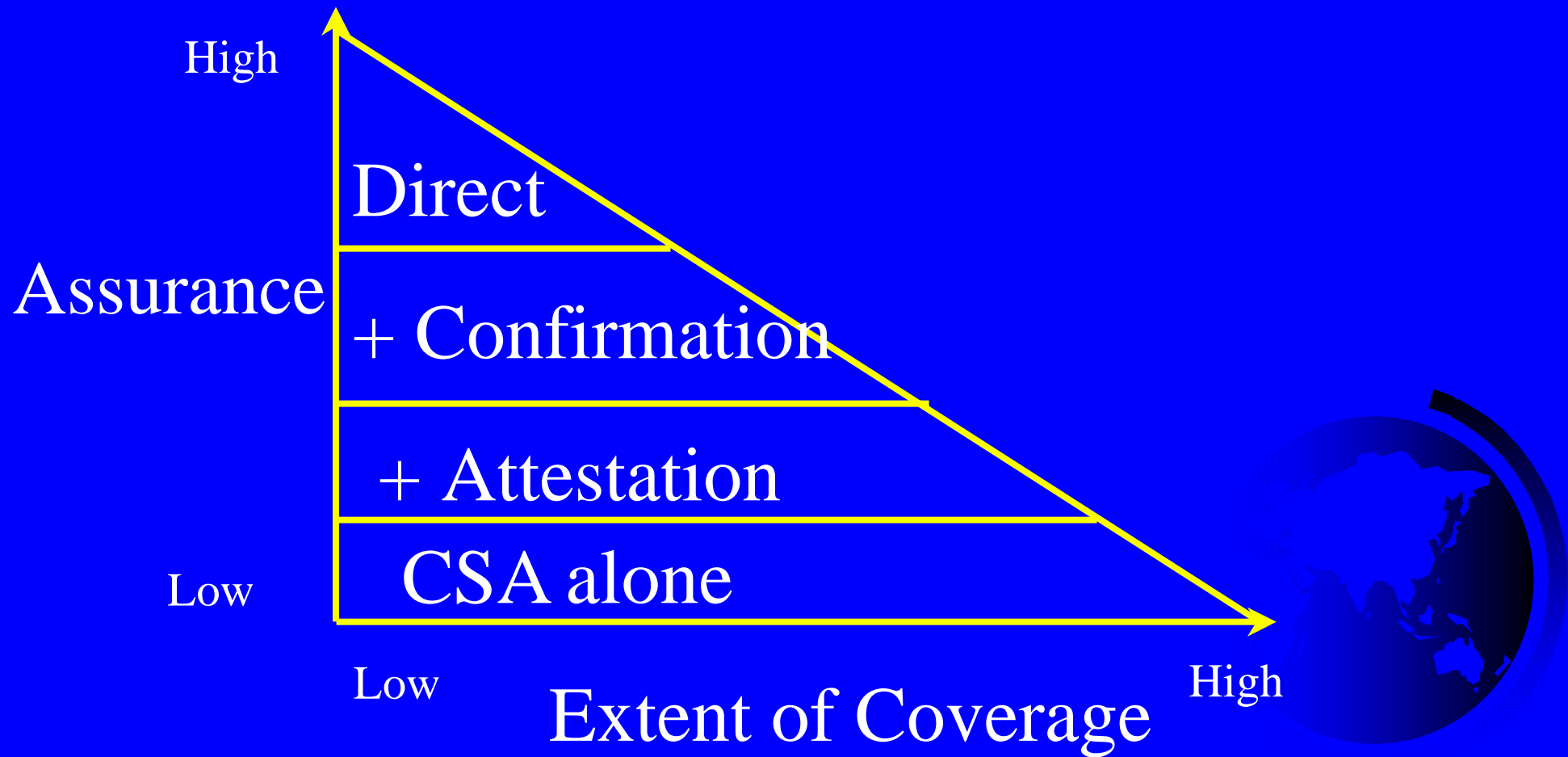


Audit Types

- **Control Environment**
 - evaluates the efficacy of the local control environment in managing risk
 - determines the type of audit work that will be conducted - as below
- **Attestation Audit**
 - assumes the local control environment to be good
 - evaluates the adequacy of management's risk and control process
 - primarily reviews the process for reasonableness
- **Confirmation Audit**
 - assumes the local control environment to be fair
 - evaluates the reliability of management's assertions on risk
 - primarily checks the completeness and accuracy of the output
- **Direct Audit**
 - assumes the local control environment to be poor or unknown
 - places no reliance on management's assertions
 - primarily used for new business or risk areas, or where the control environment is known to be weak



Reliability of Different Assurance Types



How Does CSA Measure Up?

Appropriate control procedures are in place	Identifies the key controls	✓
Procedures are being followed	Confirms operation of the key controls	✓
Changes in business are identified	Identifies significant changes in the business and the indicators of possible control failure	✓
Weaknesses are reported	Identifies and prioritises weaknesses and reports the results to the Board	✓
Appropriate corrective action is taken	Identifies and tracks the action being taken on weaknesses	✓

CSA v Conventional Audit

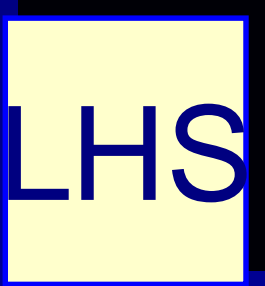
CSA

- Broader Coverage
- More Superficial
- Cruder
- More Frequent
- Less Independent
- More Subjective
- Less Audit Resources

Std. Audit

- Narrower Coverage
- More Penetrating
- More Refined
- Less Frequent
- More Independent
- More Objective
- More Audit Resources





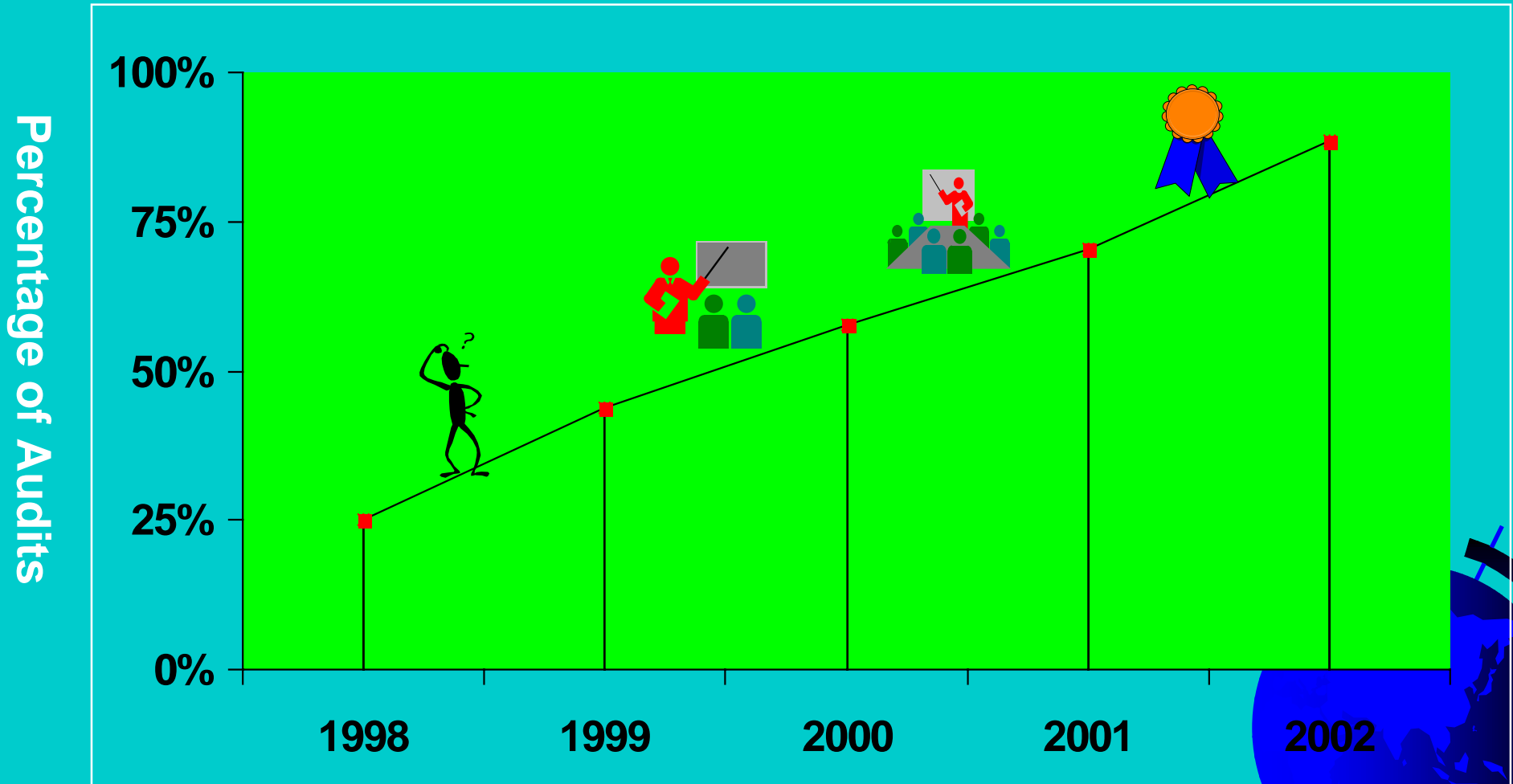
What's In It For Management?

- Method for them to confirm the adequacy of controls
- Basis for planning and tracking action on any control weaknesses
- Focus on most significant areas
- Support for control self-certification
- Cost effective way of providing basic controls assurance



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CSA Adoption by IT



Longer Term

- CSA results become incorporated into the Internal Audit strategic plan
- CSA allows improvements in control and risk reduction to be monitored
- CSA is used as a quality improvement tool
- CSA is updated regularly to reflect changes in systems and procedures



What CSA Doesn't Do

- Detect errors
- Detect inefficiencies
- Detect frauds
- Change the weather!



Conclusions

- Any Board statement on internal control should be based on a defensible methodology
- The methodology should be capable of independent verification
- A risk based approach, coupled with CSA is the appropriate mechanism



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Questions?

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