Strengthening Business Practices:
The Language of Our Control Environment

University of California
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Control Environment Agenda

• Speaking a Common Language
  – What is Internal Control?
• The Right Controls at the Right Place?
  – A Five-Part Model
• Interactive Self Assessment
  – Attitudes Toward Risk and Control
• Resources
  – Role of the Controller, Auditor
We are *Like a Business*

- Good control is good business
- Good control is Everyone’s business
- Business Officers play an especially important role in our control systems

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…by the way, what is *Internal Control*?

A *process*, put in place by people, that is designed to provide *reasonable assurance* that we will achieve the following *objectives*:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with laws and regulations
A Framework for Achieving Objectives

“The Right Controls at the Right Places”

- Information
  - Perform Risk Assessment
  - Establish Management Environment
    - and
      - Implement Control Activities
    - Monitor Performance
    - Communication

Reference Document: Understanding Internal Controls

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The foundation of sound internal control

- Control Consciousness
- Tone at the top
- Ethics
- Integrity
- Accountability

Wouldn’t you agree?
Good people can make a bad system work,
while bad people can make the best system fail
Risk Assessment
Identify, Analyze and Manage Risks

Understand Objectives ➔ Understand Risks ➔ Manage Risks ➔ Acceptable Exposure

What are you trying to accomplish?
What gets in your way?
What are you doing to manage this?
Where do you feel exposed?
Control Activities
Business Policies and Practices

- Actions designed to manage risks
- Two types of controls
  - Preventive
  - Detective
- Common control activities include:
  - authorization, approval, reconciliation, review, asset security, separation of duties, information system controls
Monitoring
Analysis of Control Systems over Time

• Are our control practices keeping pace?
  – Ongoing monitoring activities
  – Separate evaluations

Good monitoring allows us to weather the storms of constant change
5

Information and Communication

Capture and Exchange of Key Data

• Getting the right information to the right people in time to make quality decisions

• Systems can be formal or informal
  – Formal: sophisticated computer systems
  – Informal: periodic staff meetings

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Interactive Self Assessment

*Attitudes Toward Risk and Control*

- How do you view risk and control?
  - Personal perspectives affect the quality of our Control Environment

- Meet Mary, John and Bob
  - Your imaginary co-workers
Example of Attitudes Toward Risk and Controls

Mary, John and Bob all manage their personal money. They all have checking and savings accounts. One objective they all have in common in managing their money is that they want to prevent unauthorized withdrawals from their checking and savings accounts.

In this exercise you will see statements appear describing how Mary, John and Bob prevent unauthorized withdrawals from their checking and savings accounts. Watch to see how their statements differ. Think about the statement you are most comfortable with. Click the forward arrow to begin this exercise.

Mary = high risk tolerance  
John = medium risk tolerance  
Bob = low risk tolerance
Example of Attitudes Toward Risk and Controls

Their objective: to prevent unauthorized withdrawals from their checking and savings accounts.

Tool to help achieve objective: Using a transaction register that includes a record of deposits, withdrawals, checks written, other charges and a balance amount.

Mary = high risk tolerance
I do not maintain a transaction register. I rely on bank statements to show this information accurately.

John = medium risk tolerance
Sometimes I update the transaction register; I like to have it updated but do not always take the time to do this.

Bob = low risk tolerance
I always update my transaction register. One can never be too careful with money.
Example of Attitudes Toward Risk and Controls

Their objective: to prevent unauthorized withdrawals from their checking and savings accounts.

Tool to help achieve objective: Restricting withdrawal authority on accounts to the minimum number of people possible.

Mary = high risk tolerance
I am so busy with work and my personal time that sometimes my cousin and other family members stop by the bank for me to make deposits and withdrawals. I trust my family; therefore I have 5 people authorized to make withdrawals.

John = medium risk tolerance
On my account, my wife and I are authorized. We’re pretty good about telling each other what withdrawals we make.

Bob = low risk tolerance
I only have myself authorized to make withdrawals. That way if anything appears abnormal on my bank statements, I will know right away that it is an error.
Example of Attitudes Toward Risk and Controls

Their objective: to prevent unauthorized withdrawals from their checking and savings accounts.

Tool to help achieve objective: The bank cash machines are programmed to keep bank cards after 4 wrong password attempts, to make it difficult for someone who steals a card to guess the password.

Mary = high risk tolerance
There shouldn’t be any restrictions or the number of allowed attempts should be set very high, like 10 or 12. When I have a lot on my mind, I can easily punch in the wrong password a few times. If the bank machine eats my bank card, I would need to take time out of my busy schedule to get another one. This is not a user-friendly bank.

John = medium risk tolerance
My password is hard to remember. It is so hard to remember that sometimes I have to enter the password a few times to get in. Allowing 6-8 attempts is acceptable to me.

Bob = low risk tolerance
I think the rule should be 3 strikes and you’re out. I don’t want someone to have easy access to my cash at the bank machine.
Bridging Between Home and Work

Comparative Differences

How do my personal attitudes about risk and control differ between home and work?

1. Attitudes at work are more conservative than home
2. Attitudes at work and home are about the same
3. Attitudes at work are more liberal than home
Opportunities for Improvement
Where do I feel vulnerable?

In my workplace, which area could use the most improvement to strengthen business practices?

1. Budgeting
2. Handling Cash
3. Purchasing / Making Payments
4. Information Technology
5. Staffing / Human Resources
6. Not sure
Resources
Who can I call for help?

Controller
Line management champion of internal control

Auditor
Control consulting, evaluation of controls established by management

Colleagues
Everyone is responsible for internal controls

Reference Document
Controllers and Auditors: Responsibilities within the Context of Internal Control
A Balancing Act

- Controls should be proactive, value-added and cost effective
- Cost of a control should not exceed the benefit derived from it