

**PROFESSIONAL  
PRACTICES  
PAMPHLET**

**98-2**

***A Perspective on  
Control Self-Assessment***

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The Institute of Internal Auditors is an international association dedicated to the continuing professional development of the individual internal auditor and the internal auditing profession.

# A Perspective on Control Self-Assessment

Control self-assessment (CSA) is a methodology used to review key business objectives, risks involved in achieving the objectives, and internal controls designed to manage those risks. Some CSA proponents expand this description to encompass opportunity as well as risk, strength as well as weakness, and the overall effectiveness of the system in ensuring that the organization's objectives are met.

*A Perspective on Control Self-Assessment* presents the background, purpose, and definition of CSA.

Since CSA<sup>1</sup> approaches and formats differ from one organization to another, *A Perspective on Control Self-Assessment* discusses those most commonly used, making recommendations where appropriate.

## Background

Many organizations worldwide have developed definitions of internal control, the primary focus of control self-assessment.

COSO<sup>1</sup> recommends that organizations "should report on the effectiveness and efficiency of the system of internal control, which is defined as:

...a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.
3. Compliance with applicable laws and regulations."

<sup>1</sup>COSO is the Committee of Sponsoring Organizations of the Treadway Commission, which sponsored development of the U.S. research report titled *Internal Control - Integrated Framework*. Similar frameworks such as *Criteria of Control (CoCo)*, sponsored by the Canadian Institute of Chartered Accountants, have been developed by organizations throughout the world.

The COSO encompasses the same broad internal control objectives, recommending that each organization design its own system of internal control to meet the needs of the organization.

Control self-assessment, a methodology initiated at Gulf Canada in 1987, is a powerful tool that can be used to assess control effectiveness as well as business processes within organizations. The approach that Gulf Canada developed is called the *facilitated meeting* self-assessment approach. The concept involves gathering management and staff for interviews relating to, and discussion of, specific issues or processes. It is used as a mechanism to assess informal, or soft, controls as well as traditional hard controls. Gulf Canada saw this approach as more effective for CSA purposes than one-on-one audit interviews.

The Gulf Canada decision to implement their approach to CSA was based on several circumstances. Two of these included (1) a consent decree<sup>3</sup> requiring Gulf Canada to report on internal controls and (2) difficulty resolving oil and gas measurement issues through the traditional audit process. Accounting and auditing personnel decided to hold facilitated meetings to address both issues. Although Gulf Canada has since discontinued its facilitated meetings, during the 10 years this CSA approach was used, the organization implemented more than 500 workshops to assess and improve its internal control structure.

3. A judicial decree that sanctions a voluntary agreement between parties in a dispute.

During the same time period, many private-sector organizations worldwide initiated successful CSA programs and several state governments within the U.S. began requiring internal control assessments. New York, Tennessee, and Texas are three states that initiated legislation during the late 1980s. The auditing and accounting departments within these states complied with the regulations via questionnaire or management-produced analysis processes. The Federal Deposit Insurance Corporation (FDIC) and the Canadian Deposit Insurance Corporation (CDIC) now require financial institutions throughout the United States and Canada to assess internal controls. The CDIC has provided specific CSA guidance compliance.

In the meantime, organizations began experimenting with other CSA approaches such as the use of questionnaires and management-produced analysis, both of which are discussed in the *CSA Approaches* section of this pamphlet.

## **CSA Definition**

CSA is a process through which internal control effectiveness is examined and assessed. The objective is to provide reasonable assurance that all business objectives will be met.

The responsibility for the process is shared among all employees in an organization. CSA is conducted within a *structured environment* in which the process is thoroughly *documented* and the process is *repetitive* as an incentive for continuous improvement. The CSA process allows management and/or work teams directly responsible for a business function to:

Participate in the assessment of internal control.

Evaluate risk.

Develop action plans to address identified weakness.

Assess the likelihood of achieving business objectives.

CSA is a process that generates information on internal control that is useful to management and internal auditors in judging the quality of control. It can also provide a positive influence on the control environment. As operating staff buys into the process, control consciousness increases.

CSA is a relatively new and growing methodology, the success of which relates directly to the effective involvement of participants. Their response and acceptance are largely a function of organizational culture as reflected in management's attitude toward the guiding principles of CSA.

CSA can be facilitated by any component of an organization, including the internal auditing staff. Regardless of who provides facilitation, CSA improves the control environment of an organization by:

- Increasing awareness of organizational objectives and the role of internal control in achieving goals and objectives.
- Motivating personnel to carefully design and implement control processes and continually improve operating control processes.

## **CSA Purpose**

CSA is a technique that adds value to the internal auditing profession. CSA can add value by increasing an operating unit's involvement in designing and maintaining control and risk systems as well as identifying risk exposures and determining corrective action.

## **CSA Approaches**

The three primary CSA approaches are *facilitated team meetings* (also known as workshops), *questionnaires*, and *management-produced analysis*. Organizations often combine more than one approach to accommodate their self-assessment.

Facilitated team meetings gather internal control information from work teams that may represent multiple levels within an organization. The facilitator(s) is trained in internal control system design as well as generic facilitation techniques.

The questionnaire approach uses a survey instrument that offers opportunities for simple yes/no or have/have not responses. Process owners use the survey results to assess their control structure.

Management-produced analysis is any approach that does not use a facilitated meeting or survey. Through this approach, management produces a staff study of the business process. The CSA specialist (who may be an internal auditor) combines the results of the study with information gathered from sources such as other managers and key personnel. By synthesizing this material, the CSA specialist develops an analysis that process owners can use in their CSA efforts.

Most organizations have selected the CSA workshop approach. First, perform an analysis of the organization to determine how effectively it can accept and support candid participant response. If the culture is supportive, facilitated team meetings are recommended. In the event a corporate culture does not support a participative CSA approach, questionnaire responses and internal control analysis can enhance the control environment. Internal auditing should be prepared to validate any internal control representations received.

## **CSA-Facilitated Meeting Formats**

There are four basic CSA-facilitated meeting formats:

- Control-based.
- Process-based.
- Risk-based.
- Objective-based.

The *control-based format* focuses on how well the controls in place are actually working. This format may include making control design decisions outside the workshop. CSA specialists determine the objectives and control techniques, with significant input from upper management. This format produces an analysis of the gap between how controls are working and how management intended these controls to work. In addition, this format can be effective in examining soft controls such as management integrity.

The *process-based format* examines activities performed within selected processes. The intent of this workshop is to evaluate, update, and/or streamline selected processes. In addition to deciding the objectives to assess, specialists also determine which processes can best meet key business objectives before the facilitated meeting. The process-based format may have greater breadth of analysis than a control-based format, and can be used effectively in conjunction with reengineering efforts or quality action team initiatives.

The *risk-based format* focuses on identifying and managing risk. This format examines control activities to ensure they are sufficient to manage key business risks. This format easily identifies significant residual risks for corrective action, and may result in more global self-assessments than other methodologies.

The *objective-based format* focuses on the best way to accomplish an objective. The objectives may or may not be decided by specialists, but significant input from the work unit is essential. The intent of the workshop is to identify whether the best control techniques have been selected, and whether these techniques are working effectively and resulting in acceptable levels of residual risk.

## **CSA Implementation Issues**

There are five major issues an organization considers when effectively implementing CSA.

1. **Scope (Breadth) of the CSA Process.** Implementers decide what portion of the entity will use CSA, what functions or objectives to consider, and what level of detail (work group, district, division, etc.) is included in the assessment.
2. **Impact of Organization's Culture.** Implementers select a CSA approach and format based on organizational culture analysis. In the event a corporate culture does not support a participative CSA approach, questionnaire responses and internal control analysis can enhance the control environment.
3. **Use of CSA Results.** Implementers determine whether CSA risk assessment results will be used to target internal auditing work. Implementers can use the audit process to validate the CSA process and results.
4. **CSA Process Enhancements.** Implementers determine what tools, techniques, frameworks, mechanization, documentation, and report formats are used in connection with gathering and reporting CSA information.

## Summary

CSA is a relevant approach to gathering internal control information in today's environment, and it can effectively augment internal auditing.

CSA is a process that generates information on internal control that may be:

Useful for management and internal auditors in judging the quality of control.

A positive influence on the control environment within an organization by raising control consciousness and achieving buy-in of members.

A proven asset for control processes within an organization.

CSA can be facilitated by any component of an organization, including the internal auditing staff. Regardless of who provides the facilitation, CSA improves the control environment of organizations by:

Increasing the awareness of organizational objectives and the role of internal control in achieving goals and objectives.

Motivating personnel to carefully design and implement control processes and continually improve operating control processes.

The three CSA approaches are facilitated team meetings, questionnaires, and management-produced analysis. The four basic CSA-facilitated meeting formats are control-based, process-based, risk-based, and objective-based, each named for the focus of the meeting. Facilitated team meetings are recommended. Before selecting the facilitated meeting format, each entity perform an analysis to ensure the corporate culture will support and encourage honest responses.