Strengthening Business Practices: The Language of Our Control Environment

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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

...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

Reference Document: *Understanding Internal Controls*

Management Environment
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*People and the Work Environment*

The foundation of sound internal control

- Control Consciousness
- Tone at the top
- Ethics
- Integrity
- Accountability
Management Environment
People and the Work Environment

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

- Two types of control activity
  - Preventive
  - Detective
- Common control activities:
  - 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
Monitoring
Analysis of Control Systems over Time

Good monitoring allows us to weather the storms of constant change

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
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.
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

For Reference: 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