Strengthening Business Practices: The Language of Our Control Environment

University of California
Business Officer Institute

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
Reference Document: *Understanding Internal Controls*

**A Framework for Achieving Objectives**

1. **Management Environment**
   *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

What are you trying to accomplish?

Understand Risks

What gets in your way?

Manage Risks

What are you doing to manage this?

Acceptable Exposure

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.
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