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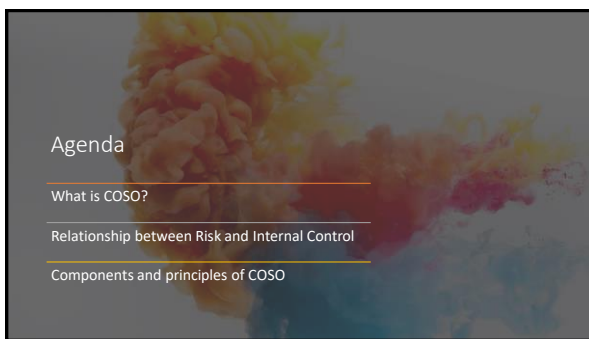
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 A slide titled "COSO" with a list of organizations and their roles. The list includes: American Accounting Association (Thought Leaders in Accounting), AICPA (American Institute of CPAs), FEI (Financial Executives International), IMA (The World's Largest Financial Professionals in Business), and The Institute of Internal Auditors. The slide also mentions that COSO was formed in 1985 to sponsor a "Commission" that would examine "fraudulent financial reports" and was a joint venture initiative of 5 private sector organizations.
 

- COSO
  - C ommittee
  - o f
  - S ponsoring
  - O rganizations
- Formed in 1985 to sponsor a "Commission" that would examine "fraudulent financial reports"
- Was a joint venture initiative of 5 private sector organizations
  - American Accounting Association
  - American Institute of CPAs
  - Financial Executives International
  - Institute of Management Accountants
  - Institute of Internal Auditors

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 A slide with a black background on the left and a light gray background on the right. The black background contains the text "COSO's Mission" in white. The light gray background contains a quote: "Provide thought leadership through the development of frameworks and guidelines for enterprise risk management, internal control and fraud deterrence ...designed to improve organizational performance and governance to reduce the scope of fraud in organizations."
 

**COSO's Mission**

"Provide thought leadership through the development of frameworks and guidelines for enterprise risk management, internal control and fraud deterrence ...designed to improve organizational performance and governance to reduce the scope of fraud in organizations."

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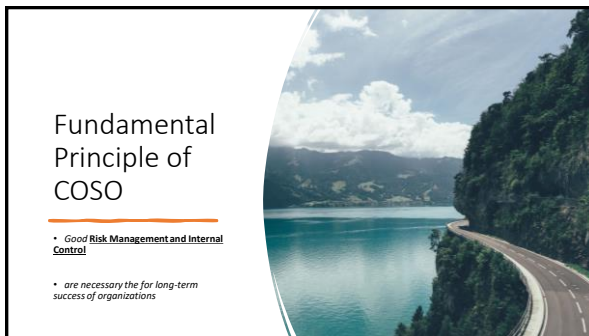
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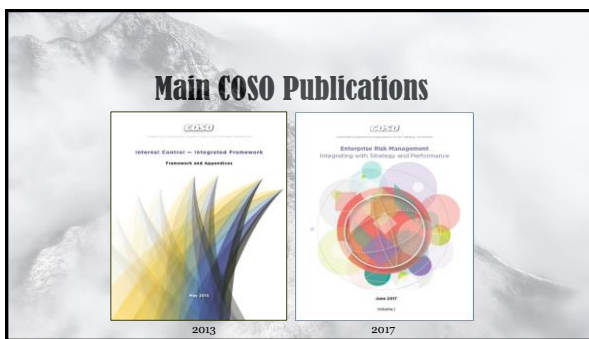
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## What is Risk?

*It is the possibility of events occurring that affect the achievement of business strategy and objectives.*

**What can happen that can affect the strategy and objectives of the business?**

- Change in interest rates or exchange rates
- Competition launches new product
- Loss of key employees or customers
- Changes in the operating structure and governance of the entity
- Social and geopolitical influence
- Contract negotiations
- Global warming
- Earthquakes
- Hurricanes
- Tidal waves
- Pandemics
- Better tax rates
- Employee Retention Policies
- Product launches above expectations
- Etc.

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## Definition of Internal Control

- Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance.
- **Objective Categories:**
  - **Operational:**
    - Effectiveness and Efficiency in operations, including performance, financial and operational objectives, and the safeguarding of assets
  - **Reporting:**
    - Internal and External, Financial and Non-Financial Reporting
  - **Compliance:**
    - Compliance with laws and regulations

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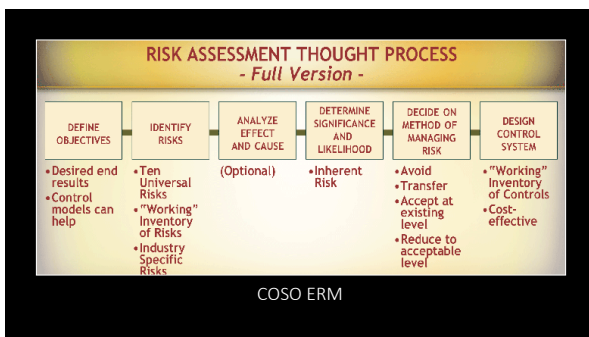
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## RISK ASSESSMENT THOUGHT PROCESS - Full Version -

DEFINE OBJECTIVES	IDENTIFY RISKS	ANALYZE EFFECT AND CAUSE (Optional)	DETERMINE SIGNIFICANCE AND LIKELIHOOD	DECIDE ON METHOD OF MANAGING RISK	DESIGN CONTROL SYSTEM
<ul style="list-style-type: none"> <li>• Desired end results</li> <li>• Control models can help</li> </ul>	<ul style="list-style-type: none"> <li>• Ten Universal Risks</li> <li>• "Working" Inventory of Risks</li> <li>• Industry Specific Risks</li> </ul>	<ul style="list-style-type: none"> <li>• Inherent Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid</li> <li>• Transfer</li> <li>• Accept at existing level</li> <li>• Reduce to acceptable level</li> </ul>	<ul style="list-style-type: none"> <li>• "Working" Inventory of Controls</li> <li>• Cost-effective</li> </ul>	

COSO ERM

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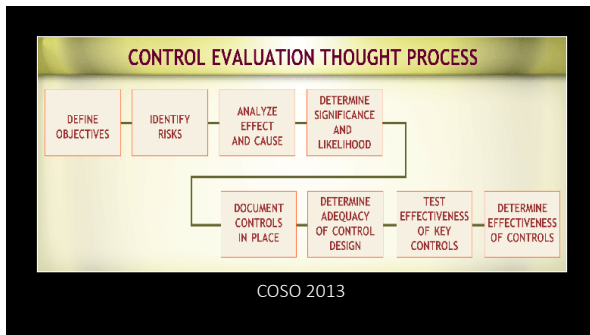
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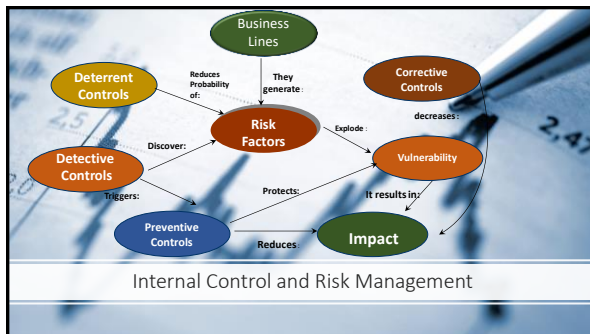
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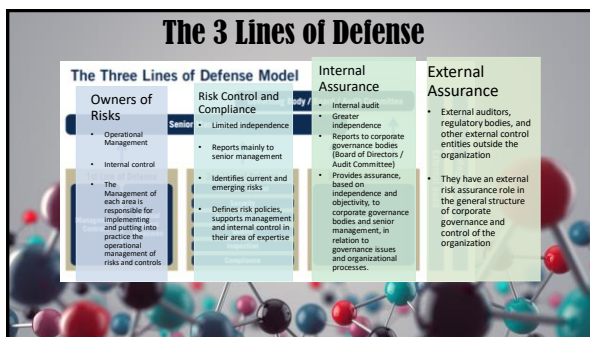
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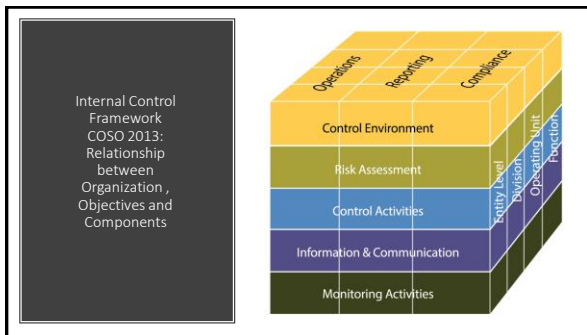
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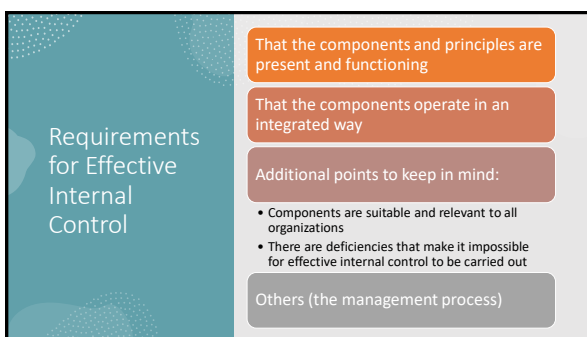
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Components	Principles	No. of Points of Focus
	1. Commitment to integrity and ethical values	4
	2. Independent board of directors oversight	5
	3. Structures, reporting lines, authorities, responsibilities	3
	4. Attract, develop and retain competent people	4
	5. People held accountable for internal control	5
<b>Control Environment</b>		
<b>Risk Assessment</b>	6. Clear objectives specified	5
	7. Risks identified to achievement of objectives	5
	8. Potential for fraud considered	4
	9. Significant changes identified and assessed	3
<b>Control Activities</b>	10. Control activities selected and developed	6
<b>Information &amp; Communication</b>	11. General IT controls selected and developed	4
	12. Controls deployed through policies and procedures	6
<b>Monitoring Activities</b>	13. Quality information obtained, generated and used	5
	14. Internal control information internally communicated	4
	15. Internal control information externally communicated	5
	16. Ongoing and/or separate evaluations conducted	7
	17. Internal control deficiencies evaluated and communicated	4

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## Templates

- General Evaluation of the System of Internal Control
- Evaluation of Components
- Evaluation of Principles
- Summary of Internal Control Deficiencies

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## Templates

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### 1. Overall Assessment of a System of Internal Control

Overall Assessment of a System of Internal Control  
(Entity or part of organization structure subject to the assessment (entity, division, operating unit, function))

Objectives being considered for the scope of internal control being assessed

Considerations regarding management's acceptable level of risk

	Passed? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
Operations			
Reporting			
Compliance			
Control Environment			
Risk Assessment			
Control Activities			
Information and Communication			
Monitoring Activities			
<b>Are all components operating together in an integrated manner?</b> Evaluate if a combination of internal control deficiencies, when aggregated across components, represent a major deficiency*			
*Update Summary of Deficiencies Template as needed			
Is the overall system of internal control effective? <Y/N>*			
Basis for conclusion			
* If it is determined that there is a major deficiency, management must conclude that the system of internal control is not effective.			

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### 5. Principle Evaluation

**Principle Evaluation – Control Environment**  
**Principle 1: Demonstrates Commitment to Integrity and Ethical Values**

• **The organization demonstrates a commitment to integrity and ethical values.**  
 Look for:

- **Points of Focus**
  - **Leadership** – The **top** – The board of directors and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the achievement of the organization's mission.
  - **Communication** – The mission of the board of directors and senior management concerning integrity and ethical values are defined in the entity's code of conduct and communicated to all levels of the organization by the board of directors and senior management.
  - **Competent Individuals to Monitor Controls** – Procedures are in place to evaluate the performance of individuals and teams against the entity's expected standards of conduct.
  - **Timely** – Disclosures are a **Timely Manner** – Disclosures of the entity's expected standards of conduct are identified and remedied in a timely and consistent manner.
- (Other entity specific points of focus, if any)

**Summary of Controls for Ethical Principle 1**

Deficiencies Applicable to Principle 1	Evaluate internal control deficiency severity	Is an internal control deficiency?
Deficiency 1a: Internal control deficiency description	Deficiency 1b: Is the deficiency a deficiency? Is the deficiency a significant deficiency or a material weakness? Is the deficiency a deficiency? Is the deficiency a deficiency?	Deficiency 1c: Is the deficiency a deficiency? Is the deficiency a significant deficiency or a material weakness? Is the deficiency a deficiency? Is the deficiency a deficiency?
Evaluate deficiencies within the principle**	Deficiency 1d: Is the deficiency a deficiency? Is the deficiency a significant deficiency or a material weakness? Is the deficiency a deficiency? Is the deficiency a deficiency?	Deficiency 1e: Is the deficiency a deficiency? Is the deficiency a significant deficiency or a material weakness? Is the deficiency a deficiency? Is the deficiency a deficiency?
Evaluate the principle using judgment**	Deficiency 1f: Is the deficiency a deficiency? Is the deficiency a significant deficiency or a material weakness? Is the deficiency a deficiency? Is the deficiency a deficiency?	Deficiency 1g: Is the deficiency a deficiency? Is the deficiency a significant deficiency or a material weakness? Is the deficiency a deficiency? Is the deficiency a deficiency?

**Is the principle functioning?**  
 Yes/No/Not Determined/Noting of deficiencies/Notable

\* If it is determined that there is a major deficiency, management must conclude that the principle is not present and functioning and the system of internal control is not effective.

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# !Thank you!

- Victor H Garcia, MBA, CCSA, CRMA
- Director, Affiliate Development
- The Institute of Internal Auditors

<http://www.linkedin.com/in/victorhgarcia>

A photograph of Victor H Garcia, a man with dark hair, wearing a light-colored blazer over a blue shirt. He is smiling and holding a white coffee cup with a brown sleeve. The background is dark and out of focus, suggesting an indoor setting like a cafe or office.

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