Internal Control
Strategic Plan

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Agenda

- Internal control is a process designed to provide reasonable assurance that an organization can achieve its objectives relating to strategy, operations, financial reporting, and compliance. E&C is a vital part of ERM.
- Internal audit and ethics & compliance -- two sides of the same coin? How can we better align the strategy of ethics & compliance with the strategy and objectives of the organization and with the wider internal controls?
- Integrity and ethical values are critical components of the control environment. How can we help the Board and senior leaders understand that these are the foundation necessary for any other controls to be effective?
Key Questions

- What is strategy? What is the strategy of my company?
- What is the relationship between our strategy and our ethics & compliance program?
- How can we better align the strategy of ethics & compliance with the strategy and objectives of the organization and with the wider internal controls?
- How can we work more effectively with Internal Audit to improve internal controls?
- How can we help the Board and senior leaders understand that these are the foundation necessary for any other controls to be effective?
- Other questions?
Exercise:

Discuss your organisation’s strategy. Do you feel it is clear and that you understand it?

Definitions

Internal control, as defined in accounting and auditing, is a process for assuring achievement of an organization's objectives:

(1) in operational effectiveness and efficiency,
(2) reliable financial reporting, and
(3) compliance with laws, regulations and policies.

Wikipedia

AND strategy *
"Internal Environment"

“The control environment comprises
- the integrity and ethical values of the organization;
- the parameters enabling the board of directors to carry out its governance oversight responsibilities;
- the organizational structure and assignment of authority and responsibility;
- the process for attracting, developing, and retaining competent individuals ("People");
- and the rigor around performance measures, incentives, and rewards to drive accountability for performance.

The resulting control environment has a pervasive impact on the overall system of internal control.”

COSO, “Internal Control – Integrated Framework, Executive Summary” 2013
§8B2.1. Effective Compliance and Ethics Program

(a) To have an effective compliance and ethics program ... an organization shall—

(1) exercise due diligence to prevent and detect criminal conduct; and

(2) otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. ....

U.S. Federal Sentencing Guidelines
What do you think your organization’s management sees as the primary objective of your ethics & compliance program?

- 29.0%: To prevent and detect misconduct
- 13.3%: To promote an ethical culture
- 42.6%: To meet a regulatory requirement
- 2.2%: To reduce criminal penalties
- 6.2%: To protect corporate reputation
- 3.4%: To protect directors and officers
- 3.4%: Other (please specify):

SCCE / corporalexecution.org
Internal Controls Strategic Plan

What is the company’s strategy? What risks, particularly conduct risks, might affect the organisation achieving its objectives?

“As a major financial services provider we face significant conduct risk, including selling products to customers which do not meet their needs; failing to deal with customers’ complaints effectively; not meeting customers’ expectations; and exhibiting behaviours which do not meet market or regulatory standards.”

Lloyds Banking Group Annual Report and Accounts 2015
Exercise

Given my company’s strategy, what are the key risks that might affect the company’s ability to achieve its objectives?

What can we do to better align the priorities of our E&C program with management’s expectations? With the Board’s expectations (if they are different)?

How can we work more effectively with Internal Audit?

- What are the respective roles of Internal Audit and E&C?
- How can we leverage IA’s skills and perspective?
How can we help the Board and senior leaders understand that “Internal Environment” is the foundation necessary for any other controls to be effective?

- Sarbanes-Oxley Act of 2002 requires management to report on the adequacy of the internal controls on financial reporting.
- How is management held accountable for culture?
- How does the Board get assurance around the Internal Environment?
- What are auditors doing to provide assurance to investors?