

**PROFESSIONAL
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***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.

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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. It also addresses the impact of CSA on the role of internal auditing and CSA implementation issues.

Since CSA¹ approaches and formats differ from one organization to another, *A Perspective on Control Self-Assessment* discusses those most commonly used, making recommendations where appropriate. Each section presents The Institute of Internal Auditors (IIA) perspective on the issue under discussion, and the last section addresses IIA responses to eight commonly asked questions.

¹CSA is also referred to as control/risk self-assessment (CRSA), especially in Canada where the revised terminology was requested by the Canadian Standards Association. Other terms used in place of CSA include management self-assessment, control and risk self-assessment, and business self-assessment.

Background

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

The IIA's *Standards for the Professional Practice of Internal Auditing (Standards)* defines control as:

...any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. (Section 300.06)

According to *Specific Standard 300.05*, the primary objectives of internal control are to ensure:

- .1 The reliability and integrity of information.
- .2 Compliance with policies, plans, procedures, laws, regulations, and contracts.
- .3 The safeguarding of assets.
- .4 The economical and efficient use of resources.
- .5 The accomplishment of established objectives and goals for operations or programs.

According to The IIA's Professional Practices Pamphlet 97-2, *Assessing and Reporting on Internal Control*, The IIA supports the COSO² recommendation 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.”

²COSO 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 Report and The IIA's *Standards* essentially encompass 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 decree³ 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.

³A 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.

The IIA believes 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.

The IIA realizes that 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, The IIA believes 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

The IIA believes that 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. *General Standard 300* states:

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

A self-assessment process will support this standard when internal auditing uses the process to examine and evaluate the adequacy and effectiveness of internal controls. CSA will also support the performance review part of the standard when internal auditing evaluates management's self-assessment activities.

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.

Research commissioned by The IIA Research Foundation shows that most organizations have selected the CSA workshop approach. The IIA recommends performing an analysis of the organization to determine how effectively it can accept and support candid participant response. If the culture is supportive, The IIA recommends facilitated team meetings. 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.

The IIA believes all the above formats strengthen the entity's control structure. Each entity should perform an analysis of external opportunities or threats as well as internal strengths and weaknesses to determine which format is most appropriate in the organization. Many CSA users combine one or more formats within a given facilitated meeting to best meet their needs.

CSA's Impact on the Role of Internal Auditing

The IIA believes that CSA effectively augments internal auditing. One of the primary responsibilities of the board and officers of any organization is providing stakeholder assurance through oversight of the organization's activities. Internal auditing, by definition, assists members of the organization in the effective discharge of their responsibilities.

Through control self-assessment, internal auditing and operating staff collaborate to produce an assessment of an operation. This synergy helps internal auditing assist in management's oversight function by improving the quantity and quality of available information. The quantity is increased as internal auditing relies on operating employees to actively participate in CSA, thus reducing time spent in information gathering and validation procedures performed during an audit. The quality is increased since participating employees have a more thorough understanding of the process than an auditor can develop over a relatively short period of time.

Some CSA-facilitated formats are not conducive to analytical review. For example, CSA results could reflect that 75 percent of CSA participants in a given workshop believe that management integrity is acceptable, while 25 percent of the participants believe management integrity is below acceptable levels. Entities that use CSA to effectively review these types of soft controls can benchmark results by methods such as comparing work groups, departments, or generic ethics survey results from their region or industry. Information gathered within a CSA process that is difficult to audit can also be compared using a control group technique where gap management strategies are used after comparing actual results to ideal or expected results.

Many internal auditing organizations that use CSA for gathering soft control information use these techniques regularly. The analysis work involved, though not a formal, explicit attestation, does validate the results of information obtained.

The IIA recommends using the synergy created by the interaction of the auditor-facilitator and CSA participants to add increased value to the organization through the internal auditing function. The IIA supports using CSA to:

- Increase the scope of coverage of internal control reporting during a given year.
- Target audit work by reviewing high risks and unusual items noted in CSA results.
- Increase the effectiveness of corrective action by transferring ownership to operating employees.

Where entities do not believe they need to enhance the quantity and quality of internal control information reported to management, CSA frees internal auditing resources and reduces the cost of audit work. This phenomenon represents a change in the oversight control design of the organization. Given the increase in informal, flexible control structures in today's economy, most organizations need stronger oversight control techniques, and CSA may be a means to that end.

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.
5. **Internal Auditing Involvement.** Implementers decide whether internal auditing or operating management will drive the CSA process. Some CSA practitioners believe that internal auditing is the arm of management responsible for internal control oversight. If the resources for CSA are internal auditing, then internal auditing may be the appropriate driver of CSA. These internal auditors believe their presence in the facilitated meetings is, in and of itself, an oversight control. Other practitioners believe that self-assessment can only be effectively performed by operating management and/or work units. Their view is that management will never be accountable for internal control if internal audit maintains its current role.

Internal auditing should actively ensure stakeholder interests are protected. Therefore The IIA supports active internal auditing CSA participation through:

- Driving the process, *or* sponsoring CSA with transfer to/partnering with management.
- Continuing oversight and involvement.

CSA Questions and Answers

1. **Does The IIA support the internal auditing effort to work with operating departments as they adopt some form of CSA?**

Yes, The IIA supports any effort that encourages management to take responsibility for maintenance of the control environment. As a means to this end, The IIA has begun a Control Self-Assessment Center. Enrollment in this Center is open to anyone, including those who have never been affiliated with internal auditing.

2. **Is an audit department that offers CSA-related services complying with the Standards? Do the Standards cover CSA activities?**

Although the *Standards* were not specifically designed for CSA, they can provide guidance in this area. The relevant *Standards* are Objectivity (120.03), Professional Proficiency (200), Scope of Work (300), and Risk Assessment (520.04.). If the internal auditing department directs the CSA process and/or facilitates the

workshops, internal auditing should maintain its objectivity through either implicit or explicit attestation processes.

3. Does information on control obtained through a facilitated workshop or questionnaire methodology have to be independently audited to meet IIA Standards regarding independence and objectivity if it is relied on as a part of the audit coverage?

CSA can be used primarily as a risk assessment tool to assist in determining the timing and frequency of audit programs. In these cases, CSA becomes another source of operating department input. If CSA results are used in lieu of (or in addition to) audits, the results should be independently verified to the extent deemed appropriate by the director of internal auditing.

4. In cases where management and/or work units produce representation on control and risk status, is a quality assurance audit of the representation by internal auditors required by the Standards for coverage of that area of the business?

If internal auditing chooses to rely on operating department representations for control and risk status coverage, sufficient work must be performed to determine that the representations are complete, accurate, relevant, and timely.

5. Could audit coverage be primarily accomplished by internal audit attestation of control and risk assessments done by work units?

Yes, assuming sufficient attestation procedures are performed and results are within acceptable standards.

6. Does The IIA recognize control self-assessment and design training as a role for internal auditing departments?

Yes. The IIA believes that internal auditing can play an effective role in control self-assessment and design training. However, many internal auditing departments may not have the resources to fulfill the training role. Auditors can teach control self-assessment and design skills while performing audits by effectively communicating the rationale for any recommendations and/or corrective action requested. In order to further internal auditing's teaching role in control self-assessment and design, The IIA plans to support it through the CSA center. The IIA offers a series of CSA seminars in "Risk and Control." CSA Center membership is open to anyone interested in CSA methodology.

7. Given the growing prominence of corporate governance and control processes (COSO, COCO, Cadbury, King, Viénot, Ryan, etc.), is it necessary to use a control framework with self-assessments or audits in order to conform to the Standards?

The preferred approach is to use a control framework with both self-assessments and audits. Control frameworks are useful in aggregating information across dissimilar functions. Control frameworks can be either established through the public comment process or specifically designed to meet internal needs. Control frameworks also provide a completeness of control over the review.

8. What criteria must a self-assessment approach meet in order for the data produced to be valid as part of audit coverage?

The auditor must ensure that the approach results are sufficient. Self-assessment results are sufficient when they represent a complete and accurate reflection of reality, Section 420.01.2 of the *Standards* states:

Information should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations.

Summary

The IIA believes that 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, The IIA believes 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. The IIA recommends facilitated team meetings. Before selecting the facilitated meeting format, The IIA also recommends each entity perform an analysis to ensure the corporate culture will support and encourage honest responses.

The *Standards* was built on the assumption that audit reports result from completed audit work. The *Standards*, of course, applies to any CSA attestation performed using the audit vehicle. Some of the *Standards* can be used as reference for CSA internal auditing facilitators. The Objectivity, Scope of Work, and Risk Assessment standards have direct application to the CSA process, while the Reporting standard may not be relevant, depending on the CSA methodology used.

The IIA recommends using the synergy created by the interaction of the auditor-facilitator and participants to add increased value to the organization through the internal auditing function. The IIA supports using CSA to:

- Increase the scope of coverage of internal control reporting during a given year.
- Target audit work by reviewing high risks and unusual items noted in CSA results.
- Increase the effectiveness of corrective action by transferring ownership to operating employees.

Since internal auditing should help ensure that stakeholder interests are protected, The IIA supports active internal auditing participation in CSA through:

- Driving the process, *or* sponsoring CSA with transfer to/partnering with management.
- Continuing oversight and involvement.

Additional Information

A CSA literature review is included in *Control Self-Assessment: Experience, Current Thinking, and Best Practices* published by The IIA Research Foundation in November 1996.

The IIA's Control Self-Assessment Center provides a unique forum for sharing information on control self-assessment and offers innovative techniques for maximizing performance and minimizing risk. This fast-growing network includes:

- Chief audit executives.
- Internal auditors.
- Audit managers and staff.
- Risk management specialists and consultants.

The CSA Library Series is a program designed to facilitate sharing among CSA practitioners by providing the opportunity to identify and report best practices in CSA. Each release in the series features practical tips on CSA implementation, facilitation, best practices, or innovative techniques from organizations that have been successful in integrating the CSA process.

The IIA has a large selection of seminars on the topic of "Risk and Control." In addition, a Certification in Control Self-Assessment is offered by The IIA and a conference focused on enterprise risk management and CSA is held annually in late summer.