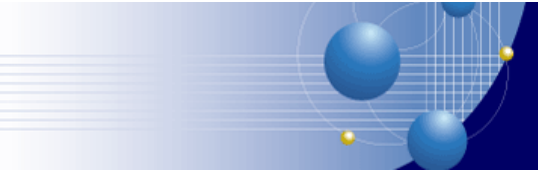


Entity Level Controls

Stuart Hartley, FCA

FocusROI Inc

shartley@focusroi.com



Nature of Internal Control

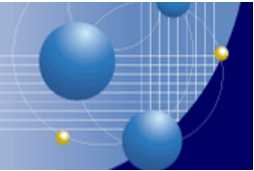
Low Risk

High risk

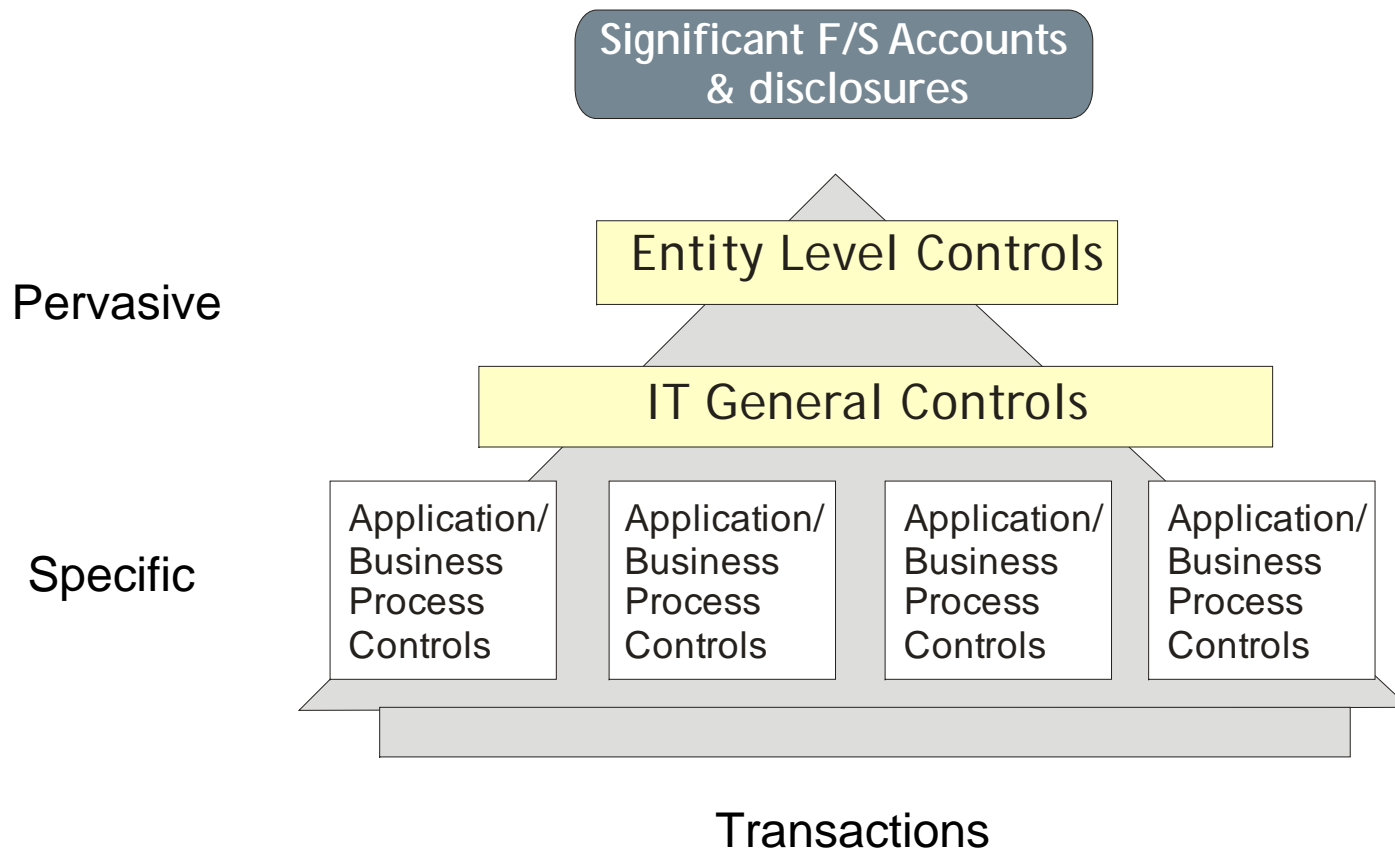
Risks of material misstatement →

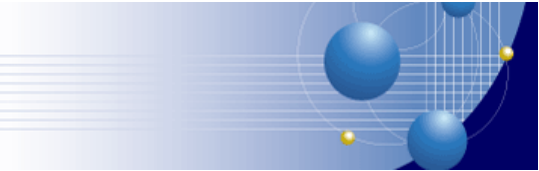
← IC to prevent/detect error

Residual Risk

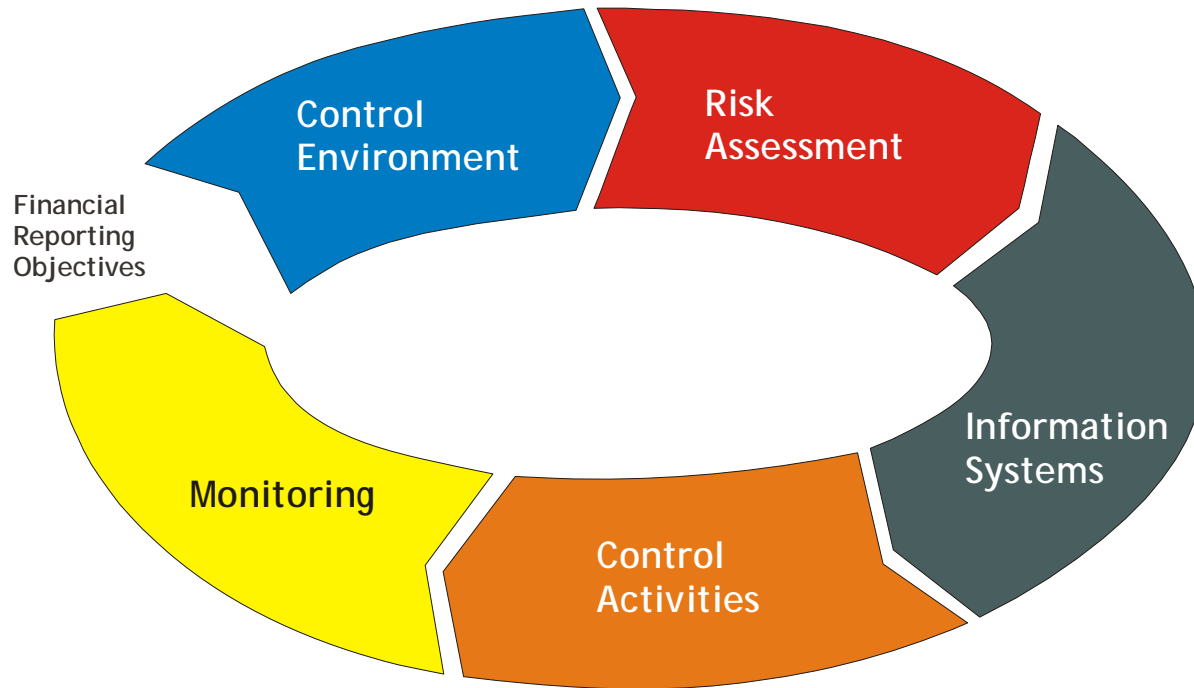


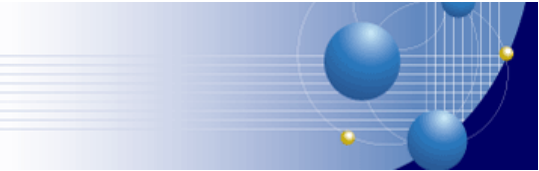
Levels of Internal Control





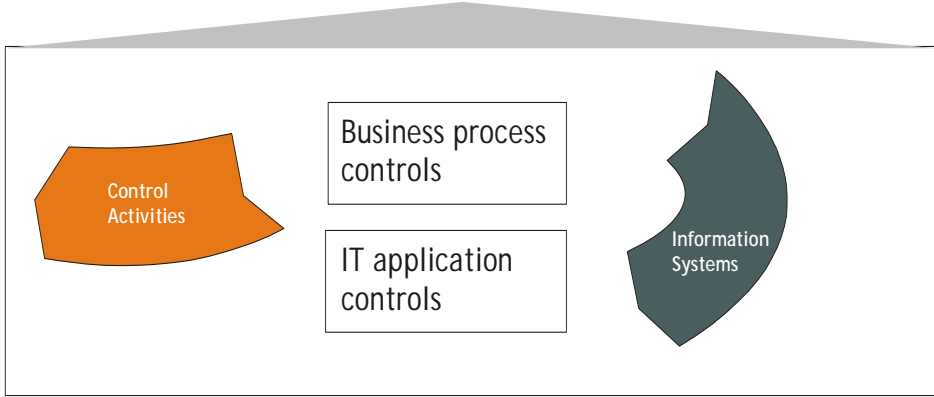
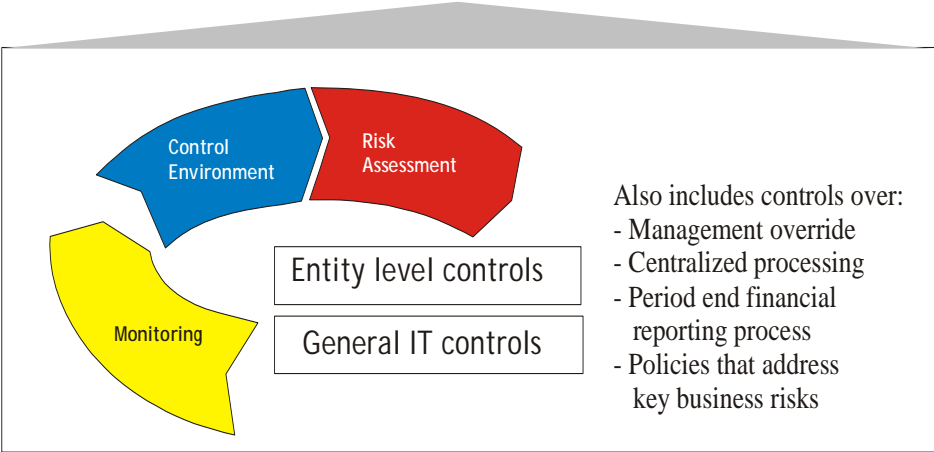
The 5 elements of Internal Control?





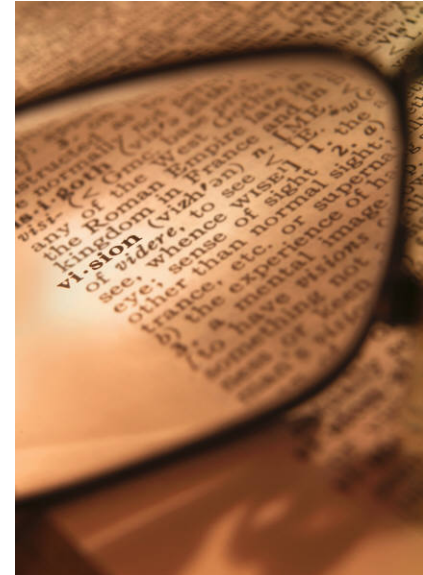
Where the 5 elements fit

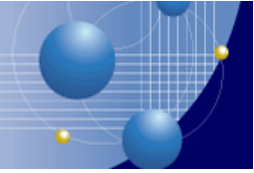
Significant F/S Accounts & Disclosures



Control Environment - scope

- Approach to Risk
 - management philosophy
 - Risk appetite
- Values, Integrity ethics
- Oversight by the board of Directors
- Commitment to competence of personnel
- Assignment of authority & responsibility
- HR Standards
 - Way people are organized and developed





The **Key** Control Tone at the Top or Culture

- Refers to the **ethical atmosphere** that is **created** in the workplace by the organization's **leadership**.
- Whatever tone management sets will have a ***trickle-down effect*** on employees of the company

Gomery.....

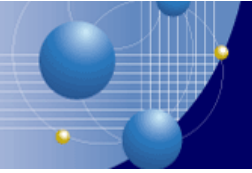
- **Poor Culture**
 - administrative/political culture surrounding the Sponsorship initiatives **tolerated and even encouraged** the contracting practices that led to abuse.

- **No one came forward** to accept responsibility for management of Sponsorship initiatives
 - Doctrine of mutual deniability
 - Public servants reluctant to raise questions

- A **breakdown of ethical standards** occurred,



Source. Gomery commission report V2 2006



The People Factor

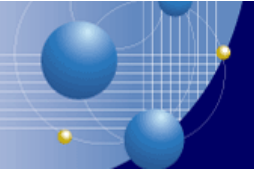
- Who do you hire?
 - The best or?
 - The integrity factor
 - How do you train/develop/reward?



The People Factor

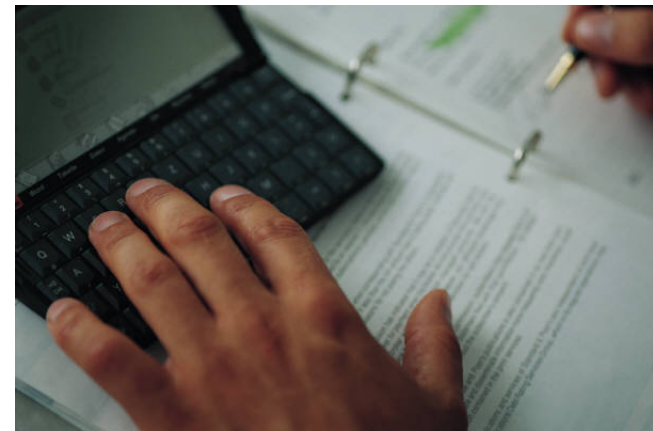
- Board of Directors
- Management
- Internal Auditors
- Entity Personnel
- Advisors and External Auditors

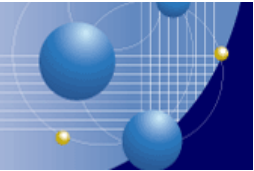




Risk Assessment

- **Risk philosophy** - a set of shared beliefs and attitudes
 - How is risk managed from strategy to day to day activities?
 - Policy statements, communications and decision making
 - Standards of behavior, performance indicators etc
 - Words *and* **ACTIONS**

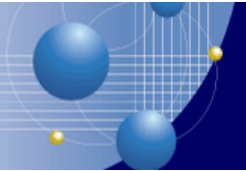




What is your Entities Risk Tolerance?

- The Risk Tolerance Worksheet
 - At the **low** level of risk no additional action required
 - At the **moderate** level of risk management action is initiated
 - At the **high** level of risk immediate and significant action is required

Sample Objectives	Event Description	Risk Tolerance		
		High	Moderate	Low
Ensure clients pay a fair fee for services rendered	Non payment or delayed payment of fees invoiced.	Bad debt write offs exceed 10% of total fees rendered by firm or partner	Bad debt write offs exceed 5% of total fees rendered by firm or partner	Bad debt write offs are less than 1% of total fees



Nature of Fraud

- Two types:
 - Manipulation of financial statements.
 - Misappropriation of assets

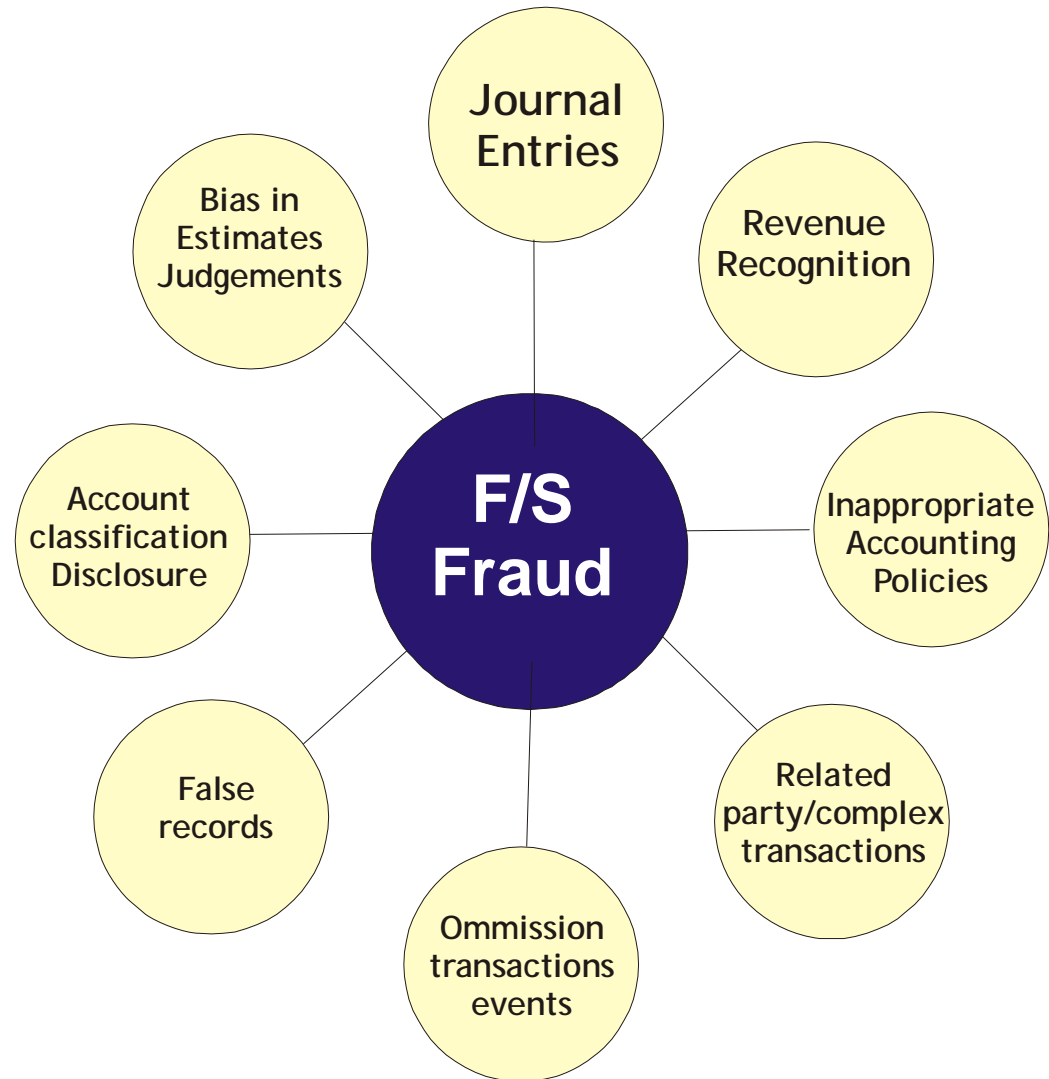
Types of Fraud	Fraudulent Financial Reporting Reporting a higher/lower level of earnings than actually occurred.	Misappropriation of assets Conversion of entity assets for personal use
Methods	Management override Accounting policies Journal entries etc	Exploit IC weaknesses Fictitious transactions inflated expense reports
Amounts Involved	Often highly significant	Anywhere from small to significant

Management Fraud

- Misstated Results
 - Overstated/understated expenditures
- Omitted/misleading disclosures
- Non existent transactions recorded
- Misappropriation/misuse of assets

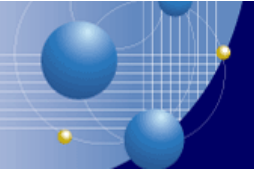


Fraudsters Toolbox



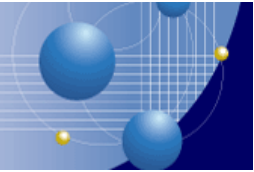
Fraudsters Toolbox





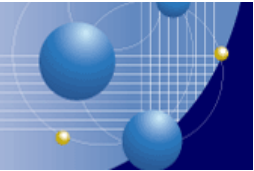
Period end financial reporting

- Accounting policies
- Close procedures
- Journal entries
- Use of spreadsheets
- Estimates
- F/S Disclosures

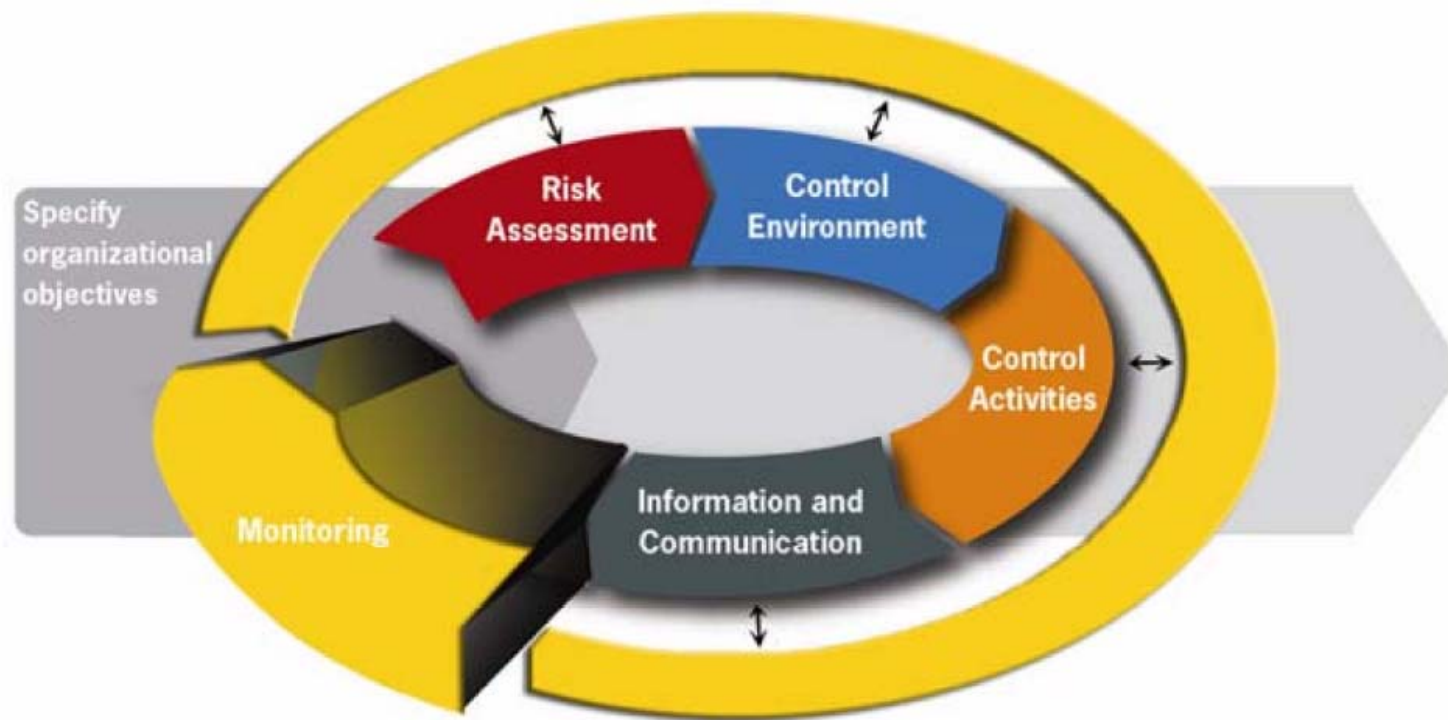


Information systems

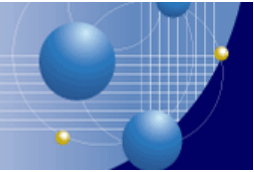
- Accounting software
- Processing controls
- Hand overs from processes to G/L



2008 - Monitoring Internal Control



The COSO Monitoring Process



FocusROI Services

- In house Training
- Risk Assessments
- Entity level control assessment and monitoring
- Evaluating internal control design and implementation
- MD&A development
- Getting ready for IFRS

