



IBM Global Business Services

A central collage of business-related images. It includes a woman smiling at a computer monitor, a man and woman walking in a hallway, hands typing on a laptop keyboard, and a man in a suit talking to another man. The collage is overlaid with a grid pattern.

# A New Paradigm for Internal Controls Management

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## Context

*Private sector organizations have been dealing with the implementation of legislation and policy to strengthen internal control and compliance for several years.*

*Sarbanes-Oxley (SOX) like standards are being adopted in the public sector as good management practice, to strengthen accountability and transparency or as part of legislative initiatives such as the Federal Accountability Act*



➔ *... The key objectives of SOX remain unchanged from the private to the public sectors*

## Internal Controls Management in the Government of Canada

*The requirement to maintain an effective system of internal control is not new to federal government departments and agencies.*

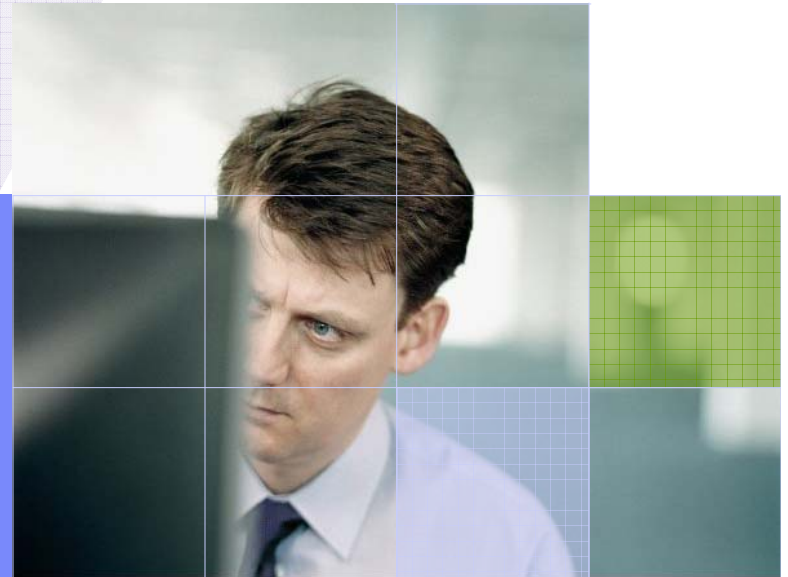


➔ *Simply being “in control” is no longer sufficient.*

➔ *You must also be able to demonstrate that you are “in control”.*

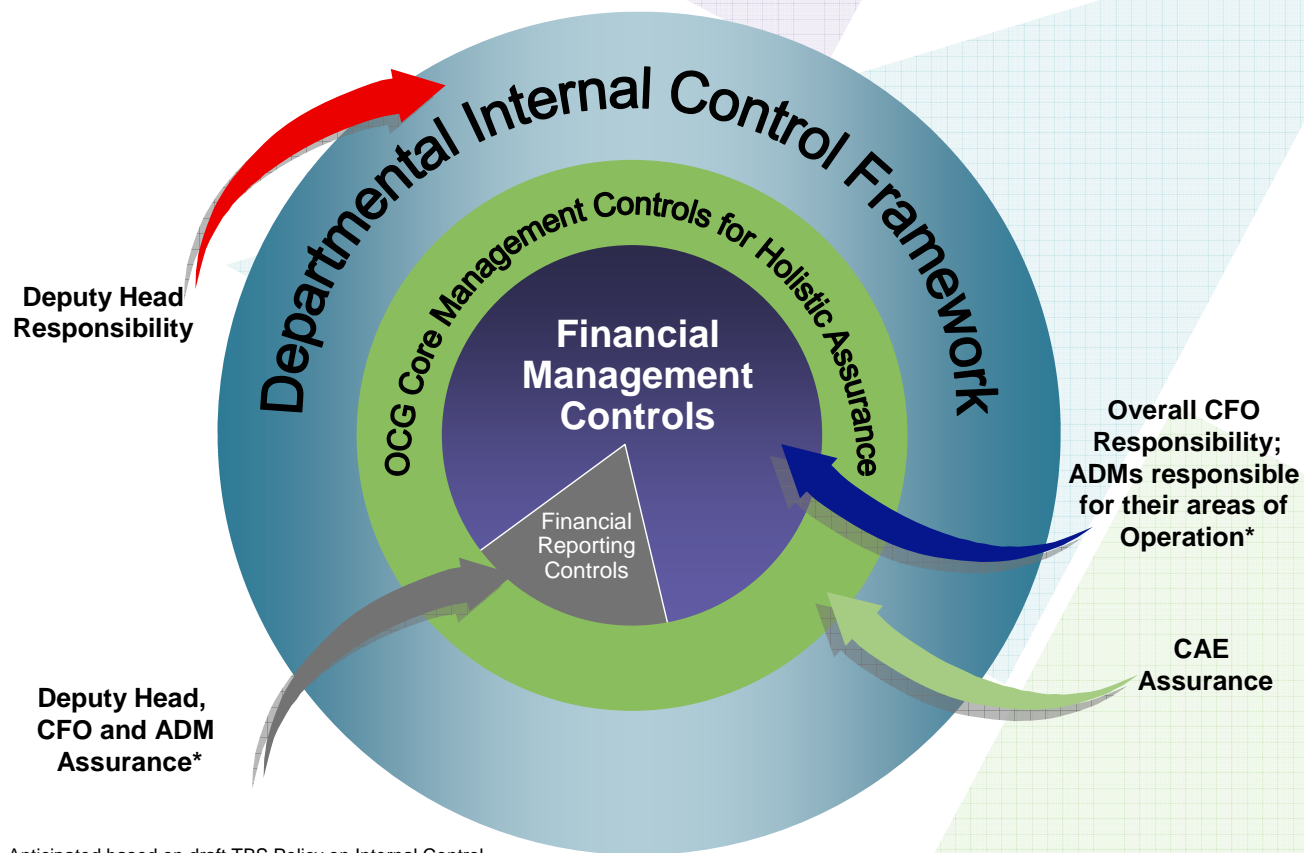
## There is a renewed focus on internal controls management in the Government of Canada

- *Legislation of the Chief Accounting Officer role for Deputy Heads*
- *Audited financial statements*
- *Renewal of the financial management policy suite*
- *Annual holistic opinion on risk management, governance and control processes under the Policy on Internal Audit*



## Maintaining an effective control environment is a shared management responsibility

- The control environment consists of both financial and non-financial controls, with shared responsibility for assurance as depicted in the diagram.



## While simple in concept, achieving a strong control environment has been deceptively difficult

Control environment in many cases not formally defined

Lack of documentation and standardization

Unclear accountabilities

Controls not aligned with risks

Limited visibility of control breakdowns, especially on real-time basis

Inability to holistically gauge health of control environment

High cost of compliance

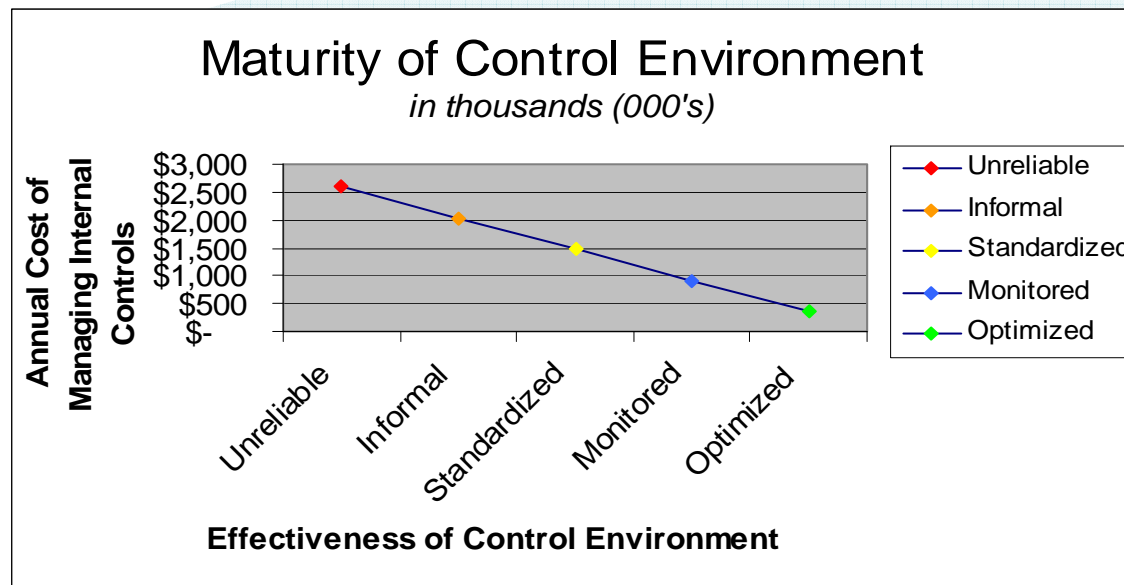
## Long-term success for effective control management depends on multiple factors

- Development and implementation of an enterprise-wide compliance framework
- Collaboration of activities, documentation and testing across multiple business lines/programs and physical locations
- Managing content across many organizations, multiple reporting periods and years
- Archiving and record retention to support regulatory reviews/ requirements.
- Reporting on complex relationships between risks, controls and financial accounts



## Cost of internal controls management can be significant

- There is a direct correlation between the cost of compliance and the control maturity level of the organization.
- Compliance benchmarks for organizations with \$1 Billion in revenues indicate that managing internal controls (primarily financial reporting controls) on an ongoing basis can range from \$1.4 Million annually for a moderately effective control environment to more than \$2 Million for informal control environments.

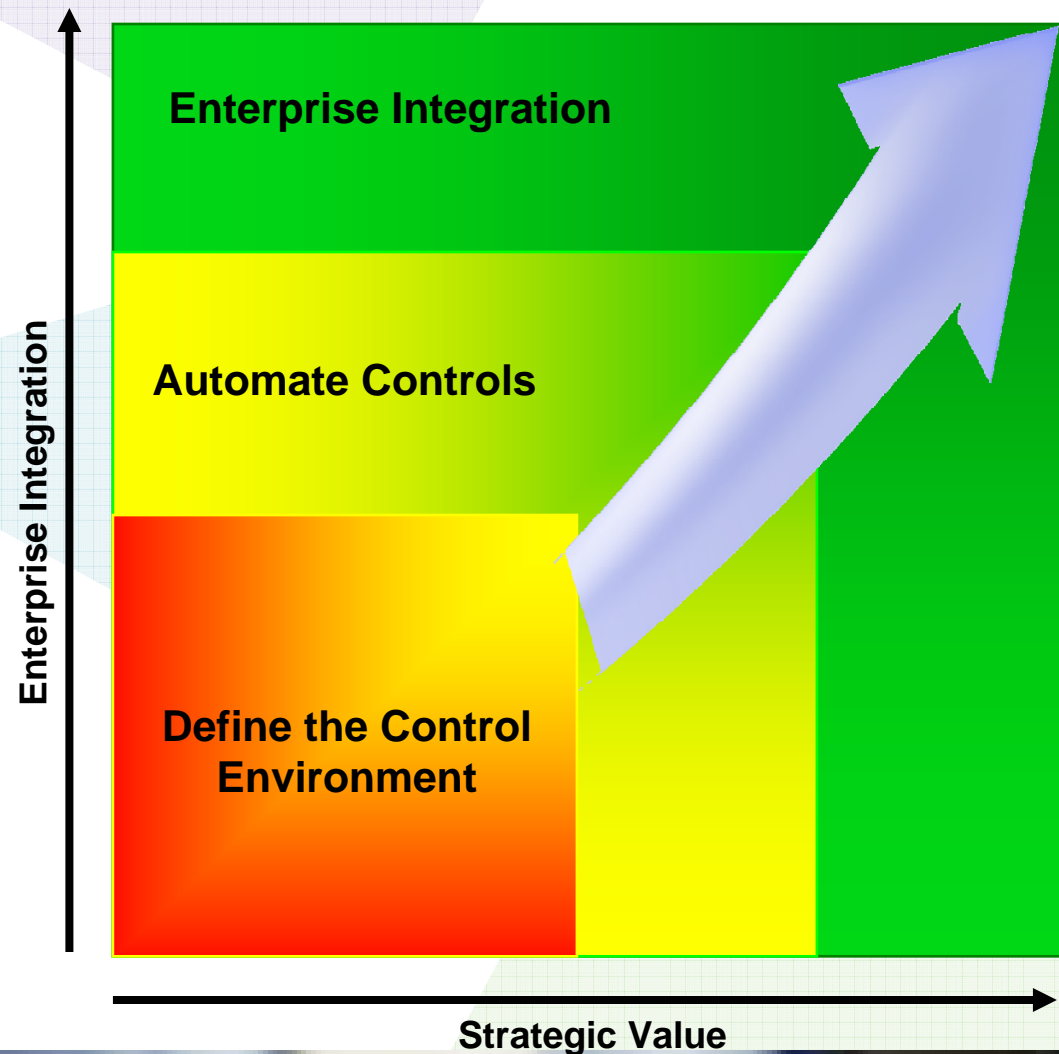


## Global Trends

- Certification of internal controls is an emerging trend and best practice in the public sector.
- Risk and compliance management are now key core competencies and job responsibilities for the Finance function, and require the support of IT and other functions
- Process and controls documentation and controls testing account for almost 65% of the initial compliance effort (i.e., setting up the compliance program).
- A top-down, risk-based approach that devotes resources to areas of highest risk and associated controls, is likely to reduce the level of compliance effort and costs.
- Leading-edge organizations are leveraging technology so they can not only achieve and sustain compliance at lower cost and with fewer human resources, but also improve operational effectiveness.

## Global Trends (cont'd)

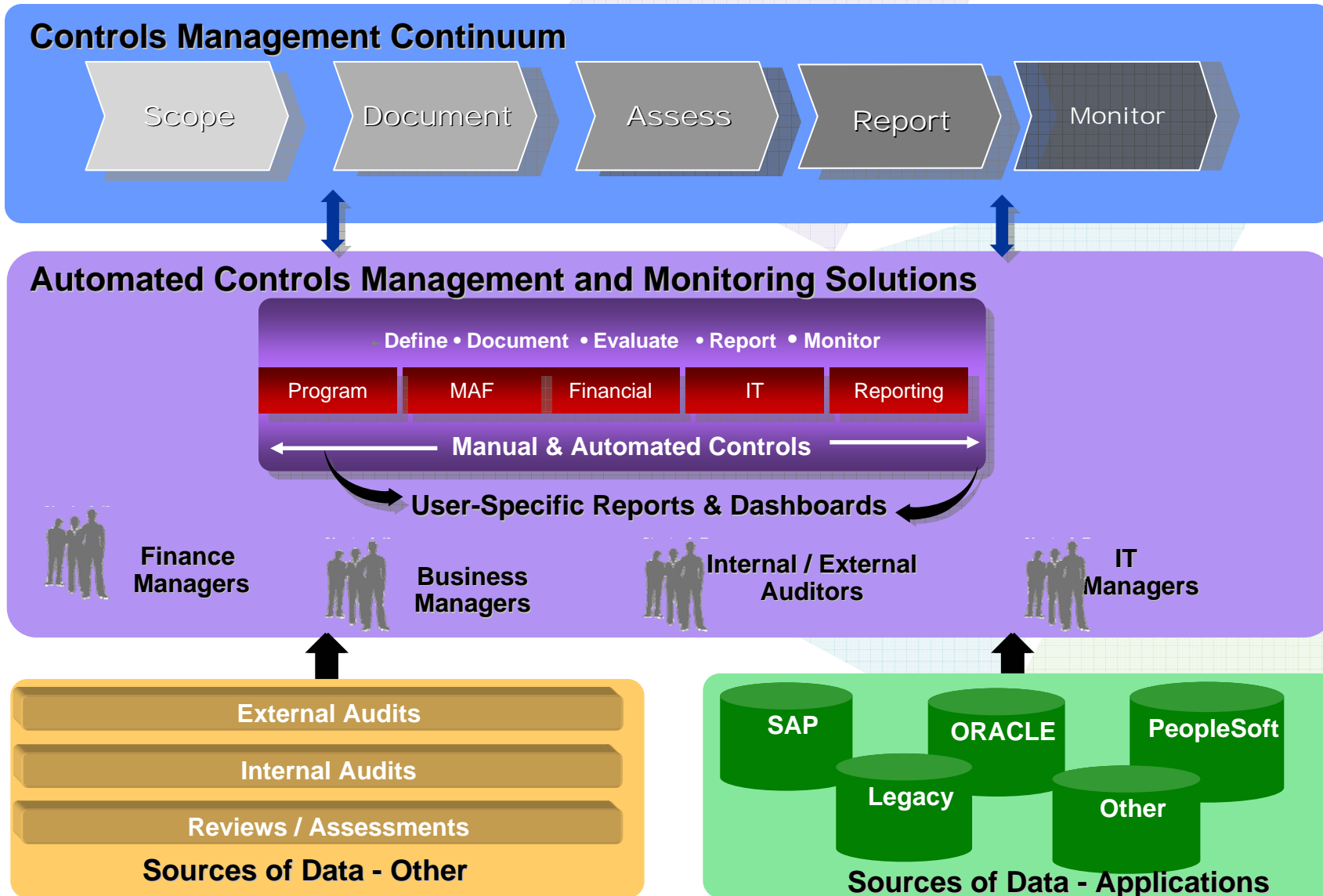
- Organizations initially focused on **defining their risk and control environment**
- **Automation of manual controls** became the next focus
- **Integration of automated or monitored controls** resulted in centralized repositories that provided standardized information
- Enterprise integration enabled **insightful and holistic view of the control environment**



## Internal controls management is a broad continuum

Scope	Document	Evaluate	Report/Certify	Monitor
Establish Compliance Scope	Document Processes, Objectives, Controls and Procedures	Establish Testing Frequency	Determine Reporting Requirements and Frequency	Establish Control Test Frequency
Define Organization and Process Ownership	Establish Key Control Points	Perform Control Evaluation	Report Results	Track compliance - ongoing
Identify and Educate Stakeholders	Train Employees on Control Policies	Follow Testing Progress by Business Unit or Process	Certification and Roll-Up	Evaluate Process Improvement Opportunities Identified in Earlier Stages
	Monitor Documentation Status	Alert Testers that Action is Due		Real-time Reporting and Comparisons to Past Results
		Identify Ineffective Controls		Track Trends Over Time
		Implement corrective actions and follow-up		

# IT solutions can address every facet of the continuum



## Features of IT Solutions for Internal Controls Management

### Single Repository of Controls

### Enhanced Accountability

### Scheduling and Progress Tracking

### Segregation of Duties (SOD) Compliance

### System Security Controls

### Single Repository of Controls

- Eliminates need for spreadsheet and other documents being emailed back and forth, reducing errors and version confusion
- Single source of “truth” to support risk assessment by internal and external auditor
- Accessibility for all users to process and testing documentation



## Features of IT Solutions for Internal Controls Management

Single Repository of Controls

Enhanced Accountability

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Segregation of Duties (SOD) Compliance

System Security Controls

### Enhanced Accountability

- Key roles and risks defined by process (CFO, Process Owner, Control Owner, etc.)
- Assignment of primary owner and delegates
- Certification assigned at Business Unit, Process, Sub-process and Control level



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Single Repository of Controls

Enhanced Accountability

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System Security Controls

### Scheduling and Progress Tracking

- Real time reporting provides visibility into progress of testing cycle to ensure all testing is completed in time
- Real time status of testing results provides early warning of trouble areas that need extra attention
- Workflow enabled functionality to remind testers to submit results as per testing schedule



## Features of IT Solutions for Internal Controls Management

Single Repository of Controls

Enhanced Accountability

Scheduling and Progress Tracking

Segregation of Duties (SOD) Compliance

System Security Controls

### Segregation of Duties (SOD) Compliance

- Prevent SOD violations at source
- Report on SOD violations



## Features of IT Solutions for Internal Controls Management

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System Security Controls

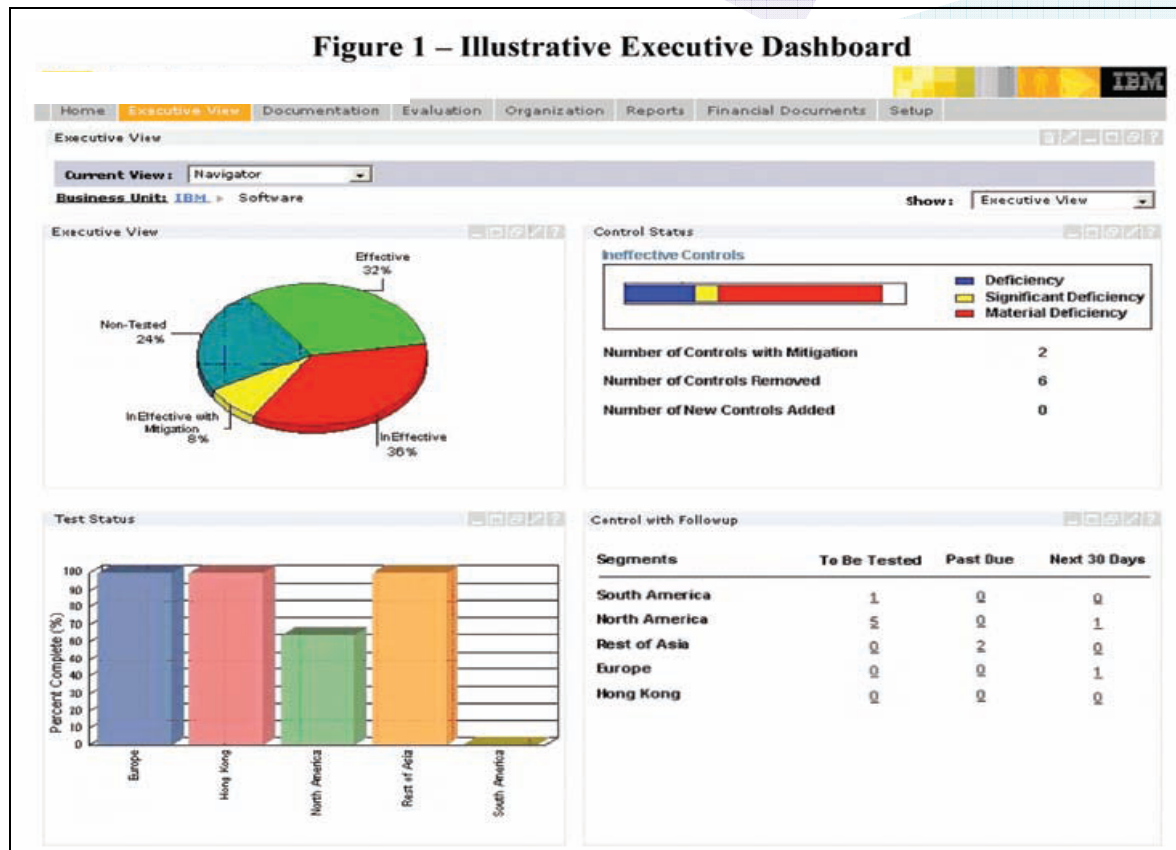
### System Security Controls

- Monitor sensitive transactions
- Automate approval for access requests
- Automate provisioning of user access requests



# Features of IT solutions for Internal Controls Management

- Reporting
  - Dashboard reports to aid in assessment process
  - Drill down capability for root cause analysis and remediation



## In summary, IT solutions for internal controls management enable:

- Creation of a centralized control repository for the entire organization
- Presentation of real time, consistent view of the control environment and its status
- Alignment of controls with risk thresholds and tolerances
- Managers to focus on assessment and analysis instead of data collection for reporting
- Identification of process and cost efficiencies
- Ease of interaction with auditors resulting in time and cost savings



## IBM Contacts



**Lori Watson**

Partner, Public Sector - Financial Management Solutions  
Phone: 1-613-249-2123, e-mail: [lori.c.watson@ca.ibm.com](mailto:lori.c.watson@ca.ibm.com)

**Shelley Senova**

Senior Managing Consultant, Public Sector - Financial Management Solutions  
Phone: 1-613-249-2104, e-mail: [shelley.senova@ca.ibm.com](mailto:shelley.senova@ca.ibm.com)