

# Intelligent Internal Controls

Dallas IIA  
with  
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Raven Global Training



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## This session is designed to help you...

- Apply skills and knowledge to perform efficient and effective risk assessments
- Learn and apply principles to create and identify Intelligent Internal Controls
- Evaluate Intelligent Internal Controls
- Promote Intelligent Internal Controls



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## Understanding risk and control concepts

- ...Risk concepts
- ...control concepts
- ...frameworks



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## Risks

- Known – knowns
- Known – unknowns
- Unknown – Unknowns

OR

- Successes (and what we needed to achieve them)
- Near misses
- Losses



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## Risk Velocity

- How do individual risks impact each other?
- How quickly will events materialize?
- Pervasive risk vs. specific risk
- Static vs. dynamic



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## Identifying & Evaluating Entity and Activity Level Controls

...Intelligent Internal Controls  
...versus “necessary” or “required” controls



## What is an “Intelligent Internal Control?”

- Design first, compliance last
- Value second
- Cost third
  
- It’s not about “covering” the auditor or giving assurance

Intelligent Internal Control and Risk Management –  
Matthew Leitch



## Management Concerns

- Personnel constraints
- Communication
- Technology
- Profitability
- Cost containment
- Political changes
- Regulatory changes
- Laws and regulations
- Competition
- Customer satisfaction
- Employee satisfaction
- Organization structure
- Organization politics
- Economic challenges
- Suppliers
- Setting policy



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## Intelligent Internal Controls

- Healthy tension between operating efficiency and control
- Tension creates risk
- Strong controls vs. right controls
- Good controls vs. necessary / required controls
- Not clumsy, bureaucratic, impractical, more costly than beneficial



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## Risk

- Risk identification and assessment drives control implementation
- Controls exist to mitigate a risk
  - ∠ No risk? No control!
- Redundant controls
  - ∠ Are they needed?
  - ∠ Do they provide additional assurance against risk?



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## Designing Intelligent Internal Controls

- Availability of automation
- Training needs of staff
- Cost vs. benefit
- Ease of use
- Difficulty / red tape
- Change from current process
- Culture
- Accountability and ownership
- Need, want, nice-to-have



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## Types of Controls

- Key / compensating or mitigating
- Entity level / Process or Activity level
- Manual / Automated
- Hard / Soft
- Preventive / Detective / Corrective
- Compensating / Mitigating
- Discretionary / Nondiscretionary (mandatory)
- Redundant and complementary
- Directive



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## Entity Level Controls

- An organization's values, attitudes, systems, style, ethics, integrity, and competence.
- Effective audits evaluate intangibles (such as the management philosophy and operating style of senior management).



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## Assessing Entity Level Controls

- Internal controls
- Relationship with internal audit
- Existence of standards
- Actions vs. words
- Communication (consistent?)
- Change implementation
- Turnover
- Training & education
- Leadership
- Red flags
- Organization structure
- Fear
- Whistleblower



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## Specific Control Activities

- Approvals, authorizations, and verifications
- Reconciliations
- Reviews of performance
- Security of assets
- Segregation of duties
- Controls over information systems



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# Questions ?



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## My Top 10 Take Aways

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.



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