Implementation Guide

Standard 2130

Standard 2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Revised Standards Effective 1 January 2017

Getting Started

To fulfill this standard, the chief audit executive (CAE) and internal auditors start by attaining a clear understanding of the concept of control and the characteristics of typical control processes. They should also consider the formal definition of control, as found in the glossary of the *International Standards for the Professional Practice of Internal Auditing*, as well as Implementation Guide 2100 – Nature of Work. Through conversations with senior management and the board, the CAE would consider the risk appetite, risk tolerance, and risk culture of the organization. It is important for internal auditors to understand the critical risks that could inhibit the organization's ability to achieve such objectives, and the controls that have been implemented to mitigate risks to an acceptable level.

Internal auditors may find it useful to review the results of previously completed evaluations of key controls, related action plans, and the potential effects of any recent business-related changes that may introduce new risks. Internal auditors may want to consult the organization's legal department, chief compliance officer, or other relevant parties regarding laws and regulations with which the organization must comply. It is beneficial for the internal audit activity to understand how the organization remains aware of changes in regulatory requirements and ensures compliance with them.

It is important for internal auditors to obtain a thorough understanding of the control framework(s) adopted either formally or informally by the organization and to become familiar with globally recognized, comprehensive control frameworks such as *Internal Control – Integrated Framework*, issued by The Committee of Sponsoring Organizations of the Treadway Commission. Although the components, processes, and assignment of responsibility for controls are similar amongst different frameworks, the terminology used by different frameworks may vary.

Internal auditors should also understand the responsibilities related to maintaining effective controls. Senior management typically oversees the establishment, administration, and assessment of the control system. Management is generally responsible for the assessment of controls within their respective areas. The internal audit activity provides varying degrees of assurance about the effectiveness of the control processes in place. The division of responsibility may be included in a management control policy for the organization.

Finally, the internal audit **activity should have in place an established process for planning, auditing, and reporting control issues.**

Considerations for Implementation

Through the implementation of the standard, the CAE and the entire internal audit activity ultimately should demonstrate an understanding of the organization's control processes, alert management to new control issues, and provide recommendations and action plans for corrective actions and monitoring. The internal audit activity should obtain sufficient information to evaluate the effectiveness of the organization's control processes.

Controls are designed to mitigate risks at the entity, activity, and transaction levels. A competent evaluation of the effectiveness of controls entails assessing the controls in the context of risks to objectives at each of those levels. A risk and control matrix may help the internal auditor facilitate such assessments. Such a matrix can assist the internal audit activity in:

- Identifying objectives and the risks to achieving them.
- Determining the significance of risks, taking into consideration the impact and likelihood.
- Ascertaining the appropriate response to significant risks (e.g. accept, pursue, transfer, mitigate, or avoid).
- Ascertaining the key controls management uses to manage risks.
- Evaluating the design adequacy of controls to help determine whether it may be appropriate to test controls for effectiveness.
- Testing controls that have been deemed adequately designed to determine whether they are operating as intended.

In employing a risk and control matrix, the internal audit activity may find it helpful to interview management; review organizational plans, policies, and processes; use walk-throughs, surveys, internal control questionnaires, and flowcharts to obtain information about control design adequacy; and utilize inspections, confirmations, continuous auditing, and data analyses to test control effectiveness.

To evaluate the efficiency of controls, the internal audit activity typically determines whether management measures and monitors the costs and benefits of controls. This would include identifying whether the resources used in the control processes exceed the benefits and whether control processes create significant business concerns (e.g., errors, delays, or duplication of efforts).

It may also be useful for internal auditors to assess whether the level of a control is appropriate for the risk it addresses. One tool that many internal auditors use to visually document the relationship is a risk and control map, which plots the risk significance against control effectiveness.

To promote continuous improvement in maintaining effective controls, the internal audit activity typically provides the board and senior management with an overall assessment or compiles the results of control evaluations accumulated from individual audit engagements. The CAE may recommend the implementation of a control framework if one is not already in place. Additionally, internal auditors may make recommendations that enhance the control environment (e.g., a tone at the top that promotes a culture of ethical behavior and a low tolerance for noncompliance).

Additional steps the internal audit activity may take to promote continuous improvement in control effectiveness include:

- Providing training on controls and ongoing self-monitoring processes.
- Facilitating control (or risk and control) assessment sessions for management.
- Helping management establish a logical structure for documenting, analyzing, and assessing the organization's design and operation of controls.
- Assisting in the development of a process for identifying, evaluating, and remediating control deficiencies.
- Helping management keep abreast of emerging issues, laws, and regulations related to control requirements.
- Monitoring technological advancements that may assist with control efficiency and effectiveness.

Considerations for Demonstrating Conformance

Documents that may demonstrate conformance with Standard 2130 include the internal audit activity's assessment and testing of controls. Such documentation typically exists in auditors' workpapers and may include:

- Minutes of meetings with relevant stakeholders whereby controls were discussed.
- Risk and control matrices and maps.
- Narratives of walk-throughs.
- Results of surveys and interviews with management.
- Results of controls testing.

Conformance may also be demonstrated through plans, reports on individual engagements, follow-up on issues raised in audit reports, and/or an overall evaluation of controls. If management maintains a proper set of operating and control procedures to communicate expected controls to staff, this may also demonstrate conformance. Continuous improvement may be evidenced in the constant updating of standard operating and control procedures to reflect the changing environment.

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