EFFECTIVE INTERNAL CONTROL FOR TIMELY PREVENTION AND IDENTIFICATION OF CORRUPTION

Facilitator: Mario Andrade Trujillo

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Mario Andrade Trujillo

- Doctor of Accounting and Auditing.
- Masters in Local Development.
- International Consultant in issues of internal control, internal and external audit, fraud prevention and investigation.
- Threshold Program Manager for implementation of the Standard Internal Control Model in 12 Paraguayan institutions.
- PriceWaterhouse Manager for Latin America and the Caribbean.
- Consultant to several international organizations in 13 countries.
- Official of the State General Accountancy and Internal Auditor of several institutions.
- Undergraduate and Graduate Lecturer and Professor at various universities in Ecuador and the Dominican Republic.
- Author of the study Resource and Risk Control [CORRE for the Spanish acronym] and technical articles.

mgandradet@gmail.com ; Cellular. 593-983715242; Land line: 593-2-2277
AGENDA

• COSO 2013 and its relationship with the Paraguayan Standard Model of Internal Control [or MECIP for the Spanish acronym] and other standard models in several countries.

• Strategies for implementation of internal control.

• Control Environment: Climate at the top; Politics, Ethics, human resources, organization and processes, accountability.

• Risk assessment: objectives and risks; fraud risks; changes in management and citizen participation.

• Information and communication: Transparency laws; monitoring by citizens; media.

• Monitoring: Self-evaluation and independent evaluation: Resource allocation and internal control [or IC] standards compliance; Role of Internal Audit.
DEFINITION OF INTERNAL CONTROL

A process conducted by the board of directors, management and other personnel of an entity, designed with the purpose of providing reasonable assurance regarding the achievement of objectives relating to:

- Honesty and accountability
- Efficacy and efficiency of operations
- Reliability of information
- Compliance with laws and regulations
PARTIES RESPONSIBLE FOR INTERNAL CONTROL

Presidents of the branches of government, directors and boards

Senior management and area managers

Process Coordinators

All employees of the organization

Citizens

Internal Audit
LIMITATIONS OF INTERNAL CONTROL

Senior management may have a major effect on the system’s efficacy by abusing their power.

The collusion of two or more people can circumvent the controls.

Does not eliminate the risk of errors and irregularities.

Established controls may weaken in a very short time.

There may be failures resulting from errors in criteria and judgment.

It is implemented by humans.
COMPONENTS OF COSO INTERNAL CONTROL 1992-2013 AND OTHER MODELS (NOT COSO 2004-ERM)

- Control Environment
- Risk Assessment
- Information and Communication
- Control Activities
- Monitoring
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<td>1. Commitment to integrity and ethical values (4)</td>
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<td>17. Communication of results (4)</td>
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MECIP STANDARDS FOR IMPLEMENTING COSO 2013 IN THE PUBLIC SECTOR

1. Develop GOOD CORPORATE GOVERNANCE topics in the Control Environment.

2. Develop emphasized PLANS & PROGRAMS in order to facilitate ACCOUNTABILITY and all other components.

3. Emphasize the organizational standard (principle) in the PROCESS MANAGEMENT MODEL and its coexistence with QUALITY MANAGEMENT.

4. Develop improvement plans based on the results of self-evaluations and independent evaluations.
INTERNAL CONTROL EFFICACY CAN BE ACHIEVED ONLY WITH THE COMMITMENT AND EXAMPLE OF THE SENIOR MANAGEMENT.
MINIMUM ACTIONS FOR IMPLEMENTING IC

- Formally issue the IC model to be implemented in the country.
- Create and bring into operation the Internal Control Committee on the National level or for each State authority.
- Organize Institutional IC committees (Ethics Committee) led by the highest authority.
- Train and organize technical teams in each institution.
MINIMUM ACTIONS FOR IMPLEMENTING IC

- Dissemination at all levels, starting with the authorities.
- Develop an implementation plan with indicators.
- Accountability, monitoring and continuous evaluation.
- Improvement actions.
COMPONENTS OF INTERNAL CONTROL

CONTROL ENVIRONMENT

MONITORING

RISK ASSESSMENT

INFORMATION AND COMMUNICATION

CONTROL ACTIVITIES
CONTROL ENVIRONMENT—PRINCIPLES AND POINTS OF FOCUS (PE): COSO 2013

**PRINCIPLES**

1. COMMITMENT TO INTEGRITY AND ETHICAL VALUES
2. INDEPENDENT MONITORING OF DIRECTOR
3. STRUCTURE, AUTHORITY AND RESPONSIBILITY

**FOCUS POINTS**

1. Establish "tone at the top," or the ETHICAL CLIMATE AT THE TOP. Lead by Example
2. Establish standards of conduct (Codes of Ethics)
3. Assess compliance with the standards of conduct
4. Address deviations in a timely manner

1. Establish oversight responsibilities
2. Skill and experience of supervisors
3. Independence
4. Fully monitor the internal control system

1. Consider all structures of the organization
2. Establishment of lines of communication-reporting
3. Definition, allocation and delineation of authority and responsibility
CONTROL ENVIRONMENT–PRINCIPLES AND POINTS OF FOCUS (PE): COSO 2013

**PRINCIPLES**

4. COMMITMENT TO COMPETITION

5. PERSONS RESPONSIBLE FOR INTERNAL CONTROL AND ACCOUNTABILITY

**FOCUS POINTS**

1. Establishment of policies and procedures
2. Assessments of skills and addressing deficiencies
3. Attract, develop and retain staff
4. Plans and preparation for succession

1. Reinforce accountability (responsibility/accountability)
2. Establishment of performance measures, incentives and rewards
3. Evaluation of performance measures, incentives and rewards
4. Evaluation of excessive pressures
5. Assess performance and rewards or application of corrective measures (disciplinary)
EFFECTS OF INTERNAL CONTROL ON PEOPLE'S ATTITUDE

Teoría del Comportamiento de las Personas - TCP

SD - Siempre Deshonesto (15 % – 20 %)

SC – Se comporta Según las Circunstancias (60 % - 70 %)

SH – Siempre Honesto (15 % – 20 %)

Comportamiento de las Personas

Fuente: ACFE
THREE KEY POINTS FOR THE CONTROL ENVIRONMENT

1. The general manager or chief executive at the head of the organization is the person who sets the "climate at the top," which affects integrity, ethics and other essential factors for having a positive ethical environment.
THREE KEY POINTS FOR THE CONTROL ENVIRONMENT

2. Exemplary behavior on the part of all senior executives is essential for demonstrating an appropriate "climate and maintaining the "ethical climate."
THREE KEY POINTS FOR THE CONTROL ENVIRONMENT

3. The "ethical climate" is even more important than legislation, corporate policy, codes of ethics or any other instrument or practice, when it comes to employees pursuing ethical conduct.
THOUGHTS ON ETHICS

The Law requires

BUT
ETHICS
DEMAND
"What it is the essence of a good government?

... not resolving issues in a hasty manner and not seeking personal gain."
"If the governor prevails through his character and maintains order in harmony with morality, the people will feel ashamed to act badly and will follow the path of virtue."
MAIN OUTPUTS OF IMPLEMENTING THE CONTROL ENVIRONMENT

- Institutional policies and protocols of good governance.
- Code of conduct.
- Ethics Committee and other committees with powers and responsibilities.
- Integrated human resources system.
- Macroprocesses, processes, organization charts, powers and responsibilities.
MAIN OUTPUTS OF IMPLEMENTING THE CONTROL ENVIRONMENT

- Mission, vision, strategies, objectives; strategic alignment.
- Methodology for accountability.
- Reports on the implementation of components, principles and focal points.
WHY AREN'T CODES OF CONDUCT EFFECTIVE?

- No commitment from the highest authorities.
- Highest authorities are the first to violate them.
- Powerless ethics committees.
- Limited and ineffective dissemination activities.
WHY AREN'T CODES OF CONDUCT EFFECTIVE?

- Codes aren't linked to plans, processes and activities.
- They are very lengthy and complex.
- Citizens are not involved in the committees and in monitoring implementation.
- Corrective actions are not applied in a timely manner.
COMPONENTS OF INTERNAL CONTROL

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring
## RISK ASSESSMENT: PRINCIPLES AND FOCAL POINTS: COSO 2013

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<th>PRINCIPLES</th>
<th>FOCUS POINTS</th>
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| **1. OBJECTIVES AT ALL LEVELS OF THE ORGANIZATION** | 1. Objectives of operations  
2. External financial reporting objectives  
3. External non-financial reporting objectives  
4. Internal reporting objective  
5. Compliance objective |
| **2. IDENTIFYING AND ANALYZING RISKS** | 1. Including all levels of the organization  
2. Analyzing internal and external factors  
3. Involving appropriate levels of the organization  
4. Estimating the significance of identified risks  
5. Determining risk response |
| **3. ASSESSING FRAUD RISKS** | 1. Considering various types of risk  
2. Assessing incentives and pressures  
3. Assessing opportunities for committing fraud  
4. Assessing attitudes and rationalizations (discretions) |
| **4. IDENTIFYING AND ANALYZING SIGNIFICANT CHANGES** | 1. Assessing changes in the external environment  
2. Assessing changes in the business model  
3. Assessing changes in leadership |
OBJECTIVES AND RISKS

Risk management must be carried out together with the planning and design of processes and their objectives.

Unattainable goals and pressures are conducive to fraud.

COSO 2013 requires identifying activities that are exposed to fraud and managing them.

Establishing conditions for reporting the irregularities of authorities and managers.

Bring public ethics committees into operation.

Consider director changes in the functioning of IC with citizen participation.
COMPONENTS OF INTERNAL CONTROL

- Control Environment
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### Control Activities: Principles and Focal Points: COSO 2013

#### Principles

1. Establishing controls to mitigate the risks
2. Selecting and developing ICT controls
3. Implementing controls with policies and procedures

#### Focal Points

1. Integration (of controls) with risk assessment
2. Considering specific factors for the entity
3. Determining the relevant processes of the entity
4. Considering a combination of types of control activities
5. Considering control activities at various levels
6. Assessing the division of duties

1. Determining dependence on the use of technology for the entity's processes
2. Establishing relevant control activities for the ICT infrastructure
3. Establishing relevant security control activities

1. Setting policies, processes and procedures that support management guidelines
2. Establishing responsibilities and accountability (accountability) in the policies, processes and procedures
3. Establishing timely control activities in policies, processes and procedures
4. Form the basis for staff competence
5. Subjected to regular assessment
CUSTOMIZED CONTROLS FOR THE COMPANY

- Controls in place to mitigate risks, including fraud risks.
- Design controls keeping in mind the cost-effective ratio.
- Establish policies and procedures and verify implementation.
- Controls on ICT and technological fraud.
- Appoint parties responsible for the implementation of controls and accountability.
- Controls carried out by competent and motivated staff.
- Subjected to independent assessments of their implementation.
COMPONENTS OF INTERNAL CONTROL

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring
1. Identifying information requirements
2. Data capture from internal and external sources
3. Processing relevant data into information
4. The quality of the information is maintained throughout the process
5. Considering the cost-benefit ratio

1. Internal control information is communicated
2. There is communication between management and the Director
3. Providing appropriate communication lines and facilitating a channel for complaints
4. Selecting communication methods

1. There is communication with external parties
2. There are means to facilitate communications from external parties
3. External communication with the Director
4. Providing appropriate communication lines
5. Selecting relevant communication methods
INFORMATION, COMMUNICATION AND TRANSPARENCY

- It cuts across all components, principles and focus points.
- Must be in tune with transparency regulations.
- Determine the internal and external information users.
- Citizen oversight of compliance with transparency regulations.
Establish minimum standards of content, timeliness, completeness, access, alerts to ensure the high quality of information.

Establish information systems with authorities and managers for lodging complaints from internal and external sources.

Selecting user-oriented methods of communication.

Reporting deviations from standards, mainly by higher authorities, to appropriate levels.
COMPONENTS OF INTERNAL CONTROL

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring
1. Considering a combination (mix) of continuous or specific assessments
2. Considering the speed of changes
3. Establishing the understanding of a baseline for assessing the current state of internal control in order to measure changes
4. Using personnel with sufficient knowledge of the target of assessment
5. Continuous assessments are included in the process design
6. Management adjusts the scope and frequency of specific assessments
7. Objectivity in assessments

1. The outcomes are assessed
2. Reporting of deficiencies
3. Monitoring of corrective actions
Independent, professional, internal and external auditing.

Consider a proper relationship between self-evaluations and independent evaluations.

Establishing baselines to measure progress.

Performed by competent personnel.

Director takes note of the results of the assessments and makes them available to the public.
Negative results are reviewed with the responsible parties.

The scope and frequency of assessments are adjusted.

The results of assessments are reported to the appropriate levels of the institution and to citizens.

Monitoring compliance with corrective actions.
INTERNAL CONTROL

It allows time to activate

Your Conscience
Let's keep up the fight against corruption

Remember that corruption among the authorities, can lead to corruption in a collective activity.

THANK YOU VERY MUCH FOR YOUR ATTENTION!