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Implementing the COSO 2013's New 17 Principles in Audit



Contents



- ❑ Background

- ❑ Pilot
Implementation
- ❑ Actual Case

- ❑ Moving
Forward

A. Background

2013

- Release of the updated Internal Control—Integrated Framework (COSO 2013 with new 17 principles)

<http://www.coso.org/>

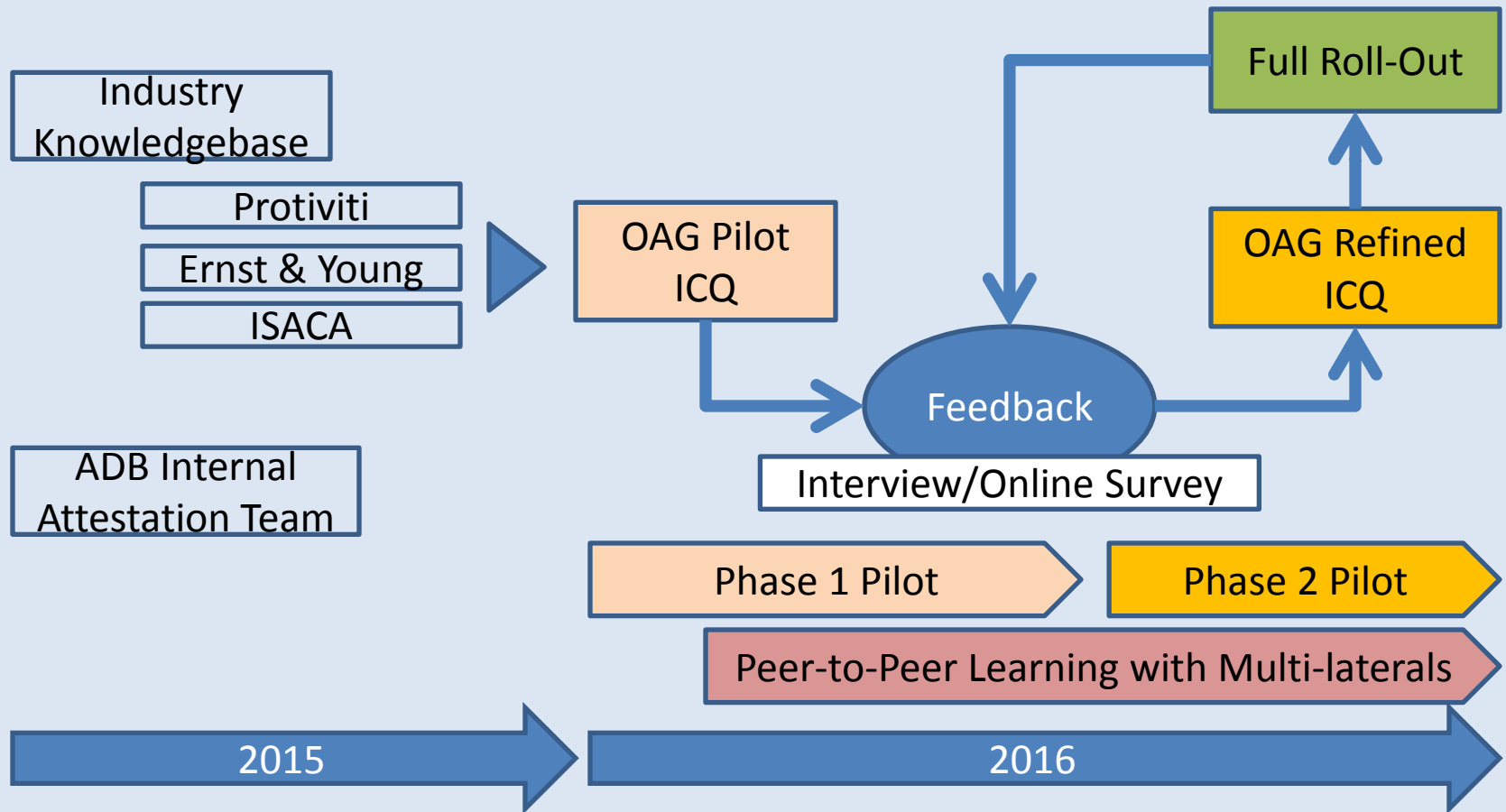
2014

- OAG formed an internal COSO 2013 Working Group (WG)

2015-2016

- ADB Pilot implementation

B. Implementation Cycle

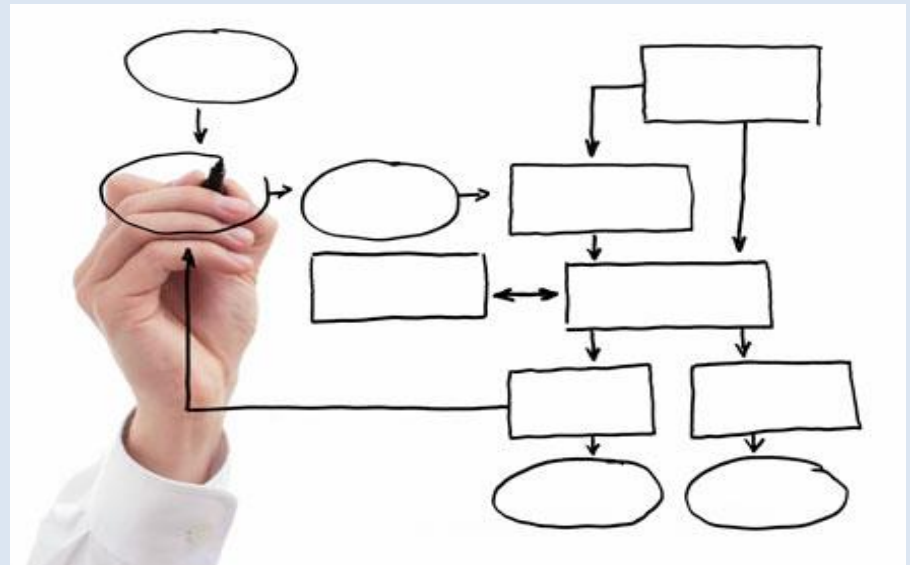


Pilot Primary Considerations

➤ What tool do we use?



➤ How to fit into the existing Audit Methodology?



1. Assessment Tool:

Why Do We Need a Questionnaire?

- The COSO Assessment Template

Principle

Principle Evaluation—Control Environment

Principle 1: Demonstrates Commitment to Integrity and Ethical Values

—The organization demonstrates a commitment to integrity and ethical values.

Point of Focus

- **Sets the Tone at the Top**—The board of directors and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.
- **Establishes Standards of Conduct**—The expectations of the board of directors and senior management concerning integrity and ethical values are defined in the entity's standards of conduct and understood at all levels of the organization and by outsourced service providers and business partners.
- **Evaluates Adherence to Standards of Conduct**—Processes are in place to evaluate the performance of individuals and teams against the entity's expected standards of conduct.
- **Addresses Deviations in a Timely Manner**—Deviations of the entity's expected standards of conduct are identified and remedied in a timely and consistent manner.

Points of Focus

Summary of Controls to Effect Principle 1

The board of directors and senior management have formulated a set of policies on integrity and ethics, and these policies are regularly flashed on the firm's internal portal and in newsletters, as well as being incorporated into the contracts with outsourced service providers.

It is up to the management of each operating unit to evaluate adherence to the organization's integrity and ethics policies. In most cases, this is not conducted. It is up to the management of each operating unit to identify and address deviations against the organization's integrity and ethics policies. Normally, this occurs only when management is specifically made aware of a situation.

Assessment

Assessment Tool:

Protiviti Internal Control Questionnaire (ICQ)

1	No	COSO Component	Question	Yes	No	NA	Comment
2	1	Control Environment	Company policies regarding acceptable business practices, conflicts of interest, and expected ethical standards of ethical and moral behavior are relevant and address matters of significance to you.				
3	2	Control Environment	There is an established "tone at the top" including explicit moral guidance about what is right and wrong. This tone is communicated and practiced by executives and management throughout the organization.				
4	3	Control Environment	All dealings with employees, suppliers, customers, investors, creditors, insurers, competitors and auditors, etc. are ethical (whether management conducts business on a high ethical plane and insists that others do so or pays little attention to ethical issues).				
5	4	Control Environment	Situations involving pressure to meet unrealistic performance targets do not exist or do exist, but are properly controlled, particularly for short-term financial results.				
6	5	Control Environment	Management frequently and clearly communicates the importance of integrity and ethical behavior during staff meetings and/or one-on-one discussions.				
7	6	Control Environment	Management demonstrates a commitment to integrity and ethical behavior by example in its day-to-day activities.				
8	7	Control Environment	Management addresses and resolves violations of expected behavioral and ethical standards consistently, timely and equitably.				
9	8	Control Environment	Formal job descriptions or other means of defining tasks that comprise particular jobs exist and are effectively used.				

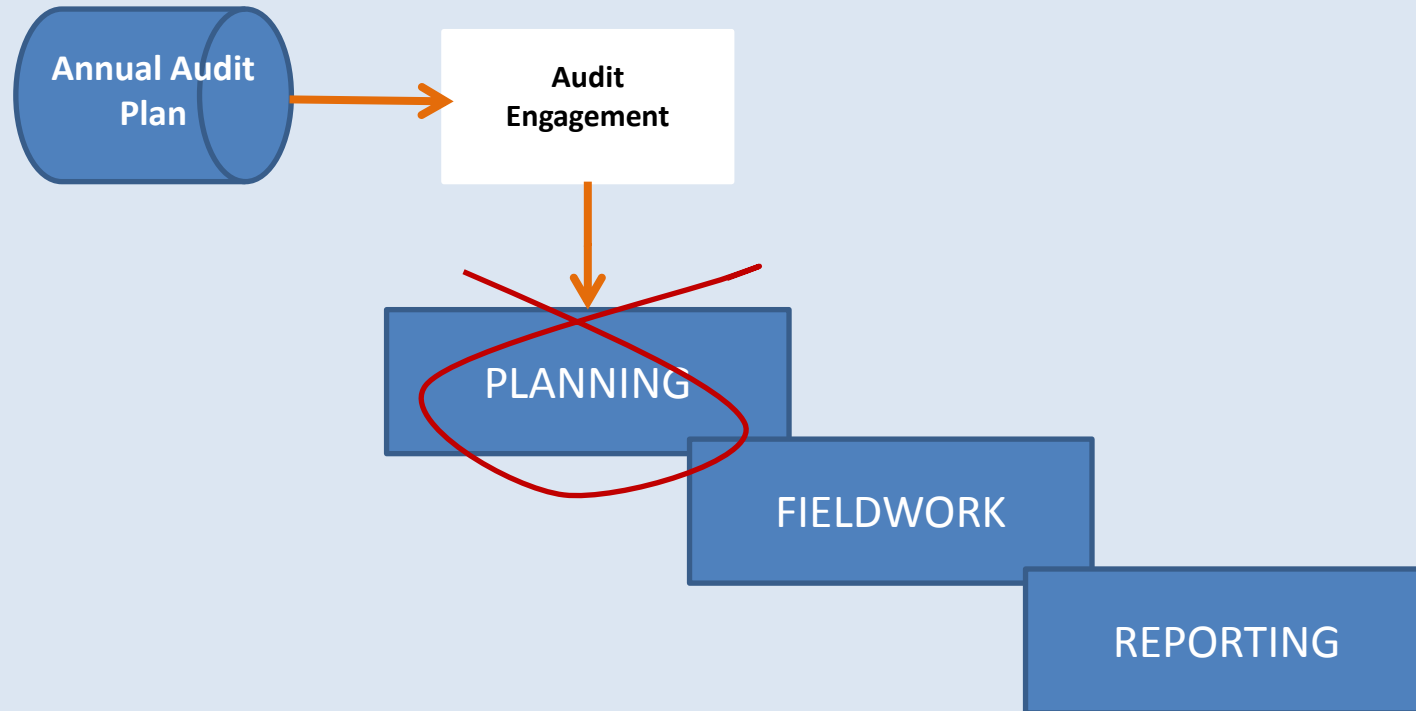
Assessment Tool: The Pilot ICQ

Points to
Consider

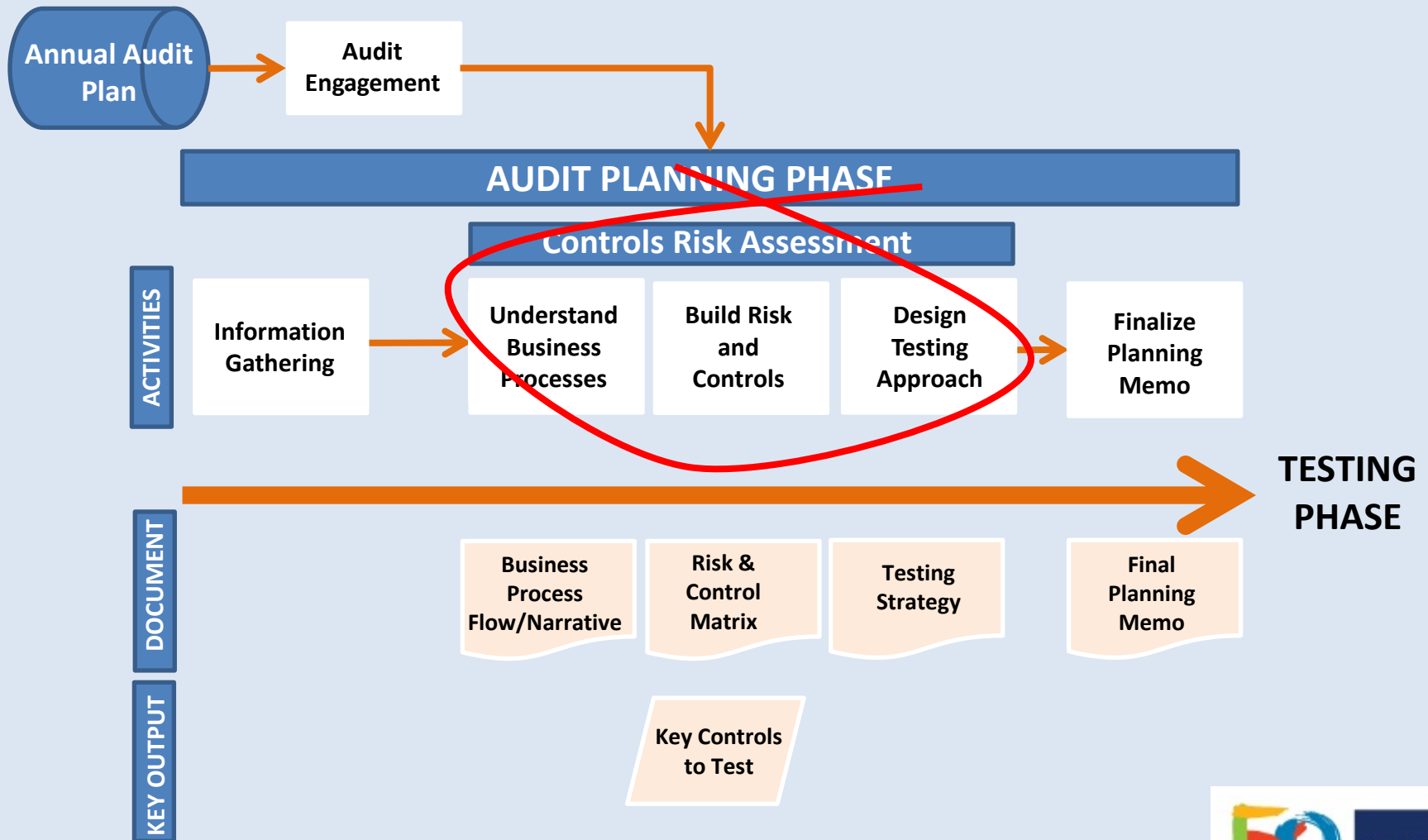
Principle
Evaluation

Control Component	Control Environment
Control Principle	1. Demonstrates commitment to integrity and ethical values.
Control Points	<ul style="list-style-type: none"> a. Company policies regarding acceptable business practices, conflicts of interest, and expected ethical standards of ethical and moral behavior are relevant and address matters of significance to you. b. There is an established "tone at the top" including explicit moral guidance about what is right and wrong. This tone is communicated and practiced by executives and management throughout the organization. c. All dealings with employees, suppliers, customers, investors, creditors, insurers, competitors and auditors, etc. are ethical (whether management conducts business on a high ethical plane and insists that others do so or pays little attention to ethical issues). d. Situations involving pressure to meet unrealistic performance targets do not exist or do exist, but are properly controlled, particularly for short-term financial results. e. Management frequently and clearly communicates the importance of integrity and ethical behavior during staff meetings and/or one-on-one discussions. f. Management demonstrates a commitment to integrity and ethical behavior by example in its day-to-day activities. g. Management addresses and resolves violations of expected behavioral and ethical standards consistently, timely and equitably. h. There are strong ethical attitudes and actions toward financial reporting, including appropriate resolution of disputes over application of accounting treatments (e.g. selection of conservative versus liberal accounting policies, whether accounting principles have been misapplied, important financial information not disclosed, or records manipulated, etc.).
Conclusion	

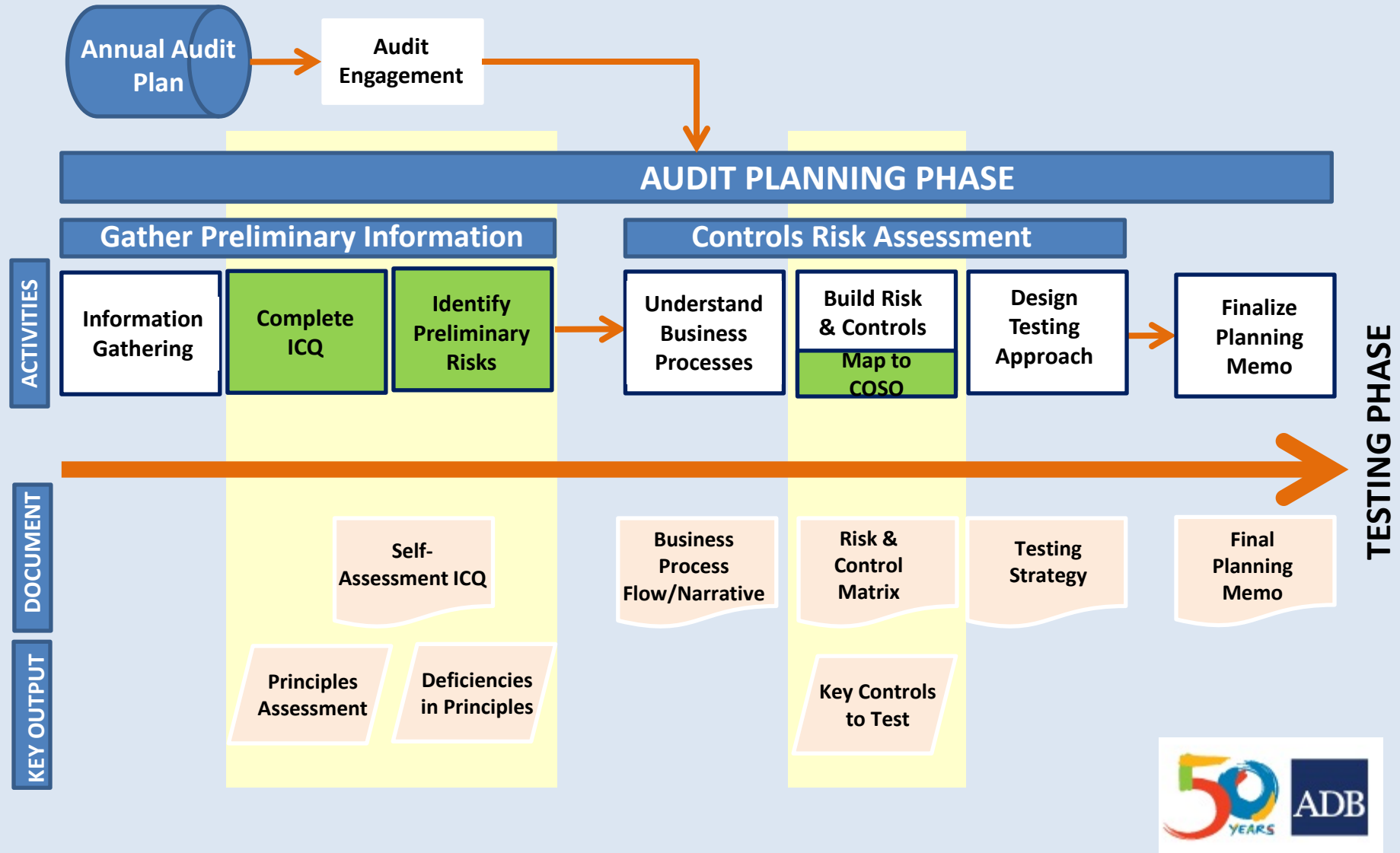
2. High Level Audit Process



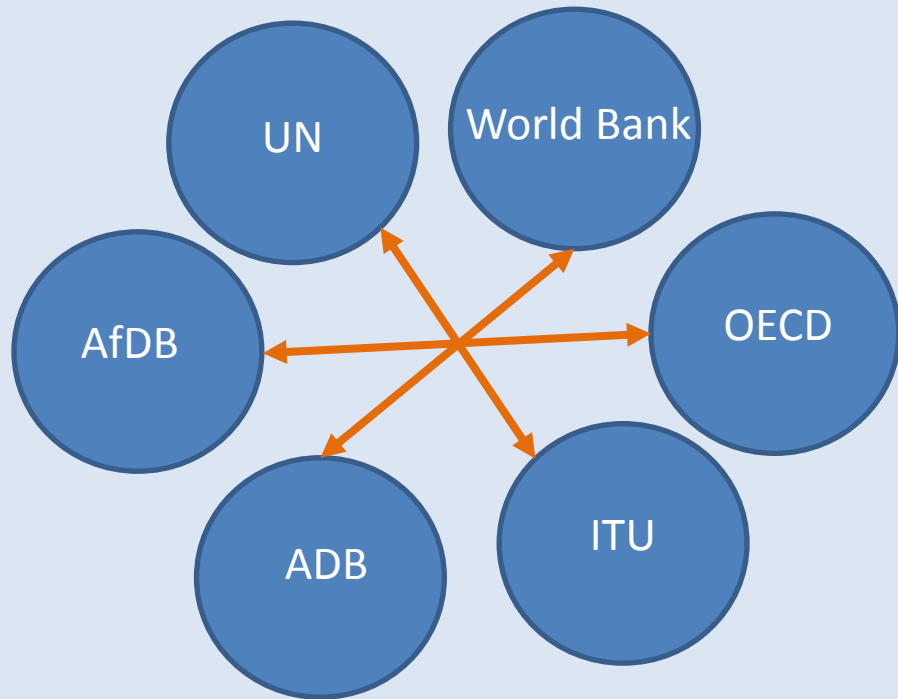
2. The Current Audit Planning Process



2. The Proposed Audit Planning Process



3. P2P Learning Initiative with Multi-laterals



- ❑ Early adoption stages
- ❑ Discussion points include:
 - Client involvement
 - Tool
 - Audit Management System support
 - COSO Training Considerations

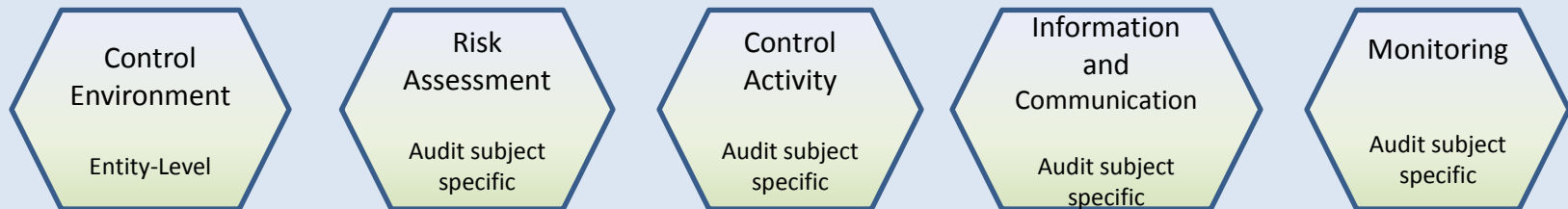
C. Pilot Case: Accomplishing the ICQ

Audit Engagement Pilot Case # 1

Team Effort

- ☐ Past audits
- ☐ Consultation with OAG Colleagues
- ☐ Strategy papers, programs , operations results shared by clients
- ☐ Client Inquiry

Level of Details



Accomplishing the ICQ

Audit Project 1

Audit Project 2

Control Activity: Principle 10

Control Component	Control Activities
Control Principle	10. Selects and develops control activities.
Control Points	<p>a. Appropriate and timely actions are taken on exceptions to your department's policies and procedures. Yes. Currently, OMD10 is being revised to reflect current policies and procedures.</p> <p>b. Financial and other key records are reasonably protected against physical destruction. Yes. The BCP requires daily back-up of data, stored in BCP offices located in Clark Pampanga Philippines and Singapore.</p> <p>c. There is adequate segregation of responsibilities (administration versus operations) and restriction of system access. Yes. There is SOD in e-Ops.</p> <p>d. There are adequate controls over processing programs and transaction files. Yes. The documents are limited to PSOD and ORM access due to confidentiality. Files are also stored electronically (e-Star).</p>
Reference to RCM No.	R10
Conclusion	<p>Principle present and functioning.</p> <p>General Control: Control activities are in place such as SOD which is reflected in both the Operations Manual OMD10 and the e-Ops System.</p>



reflect current procedures. Policy limits are monitored by ORM and exceptions are corrected or waived through formal request from TD.

- b. Financial and other key records are reasonably protected against physical destruction.
Yes. The BCP requires daily back-up of data, stored in BCP offices located in Clark Pampanga Philippines and Singapore (bank wide practice).

Based on inquiry, TDFD Documentation unit (DU) indicated that the original copies of the bond and swap documentation are retained by OGC. What TDFD retain in their office are copies and scanned files lodged in G drive. Working papers are sent to archive/records section in OAS after 5 years of retention.

For BDMU, all hardcopies of transactions that matured 2012 and below are already in archive section. These documents sent to archive/records section in OAS for pdf scanning and retention. This means that BDMU retains outstanding borrowing transactions and those that matured within the last 3 years from the current year.

- c. There is adequate segregation of responsibilities (administration versus operations) and restriction of system access.
Yes. There is SOD setup in iFirst. iFirst administration is handled separately by System Support and Data Management Unit (TDS-SSDMU).
- d. There are adequate controls over processing programs and transaction files.
Yes. Transaction files are in iFirst. Relevant documents relating to

Accomplishing the ICQ

Control Component	Risk Assessment
Control Principle	6. Specifies relevant objectives with sufficient clarity to enable identification of risks.
Control Points	<p>a. Management has established and clearly communicated the company's mission, strategy and business objectives. Yes. This is reflected in strategy papers. Also PSOD's OMD 10 specifies the objectives of their operations.</p> <p>b. Management has access to feedback that enables the company to periodically assess whether company-wide objectives have been achieved. Yes. Board meetings are held periodically to discuss matters such as results of operation, future objectives and strategy, etc.</p> <p>c. Key performance indicators and measurement criteria for achieving company-wide objectives and strategic goals have been communicated, are adequately monitored, and are uniformly understood. Yes. The ORM department assists departments in monitoring operational risks and trains them how to continuously monitor their KPIs.</p> <p>d. Business plans and budgets are consistent with company-wide objectives, strategic plans and current conditions. Yes. There is periodic budget review.</p> <p>e. Company-wide objectives are sufficiently broad statements and guidance on what the company desires to achieve, yet are specific enough to relate directly to your company. Yes.</p> <p>f. Resources are generally sufficient to achieve the objectives established for processes in your department and, if not, plans are in place to acquire needed resources. Part of our testing of terminated / dropped projects.</p>
	<p>g. Process-level objectives are linked with company-wide objectives and strategic plans. Yes. Since the bank's objective is to provide more financing to private section in the coming years, several strategies were put in place such as fast track approval process to support the department's needs.</p>
	<p>h. Process-level objectives are consistent with one another. Yes.</p> <p>i. Process-level objectives are relevant to all significant business processes. Yes.</p> <p>j. All levels of management are involved in objective setting and are</p>

Accomplishing the ICQ

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committed to achieving the objectives
Yes. This is shown in the Development Effectiveness Reports and other Annual Reports produced by PSOD.

Reference to RCM No.

R01, R03

Conclusion

Principle present and functioning.

Due to increasing transactions in PSOD, possible risk of resource constraints may prohibit quality assessment of projects, hence would be tested further.

General Control: Bank's strategic plans and objectives are disseminated to employees.

ICQ Link to Planning Memo

A. Preliminary Assessment of Internal Control Environment

1. The audit team conducted preliminary assessment of internal controls based on the 2013 COSO Framework's 17 principles. The following risks were identified (refer to Appendix 1 for details):

(i) **Principle 6.** Due to the increasing NSO transactions, there could be risk of high personnel turnover and excessive staff workload.

(ii) **Principle 12.** Potential non-compliance against operational policies may exist. Audit team identified high-rated risks as follows:

- Sufficient information may not be gathered to adequately identify critical risks.
- Inadequate and/or inaccurate due diligence was provided due to the lack of expertise or independence of hired consultants.
- The proposed project's objectives, features, characteristics, risks, and project-specific issues previously identified at the implementation completion memorandum (ICM) have not been adequately addressed, and significant changes or open issues to be considered remain unresolved prior to submission of the transaction to the President and the Board for approval.
- Risk that the project which has been negotiated is materially or adversely different from the basic transaction description, terms and conditions, security package, and minimum pricing approved by the investment committee and the Board.

(iii) **Principle 13, 14, 15.** The risk of projects being processed inefficiently due to inadequate IT system support, longer processing time, redundant procedures, and minimal follow-ups between project team and potential clients.

(iv) **Principle 16, 17.** The process may fail to identify significant integrity, pricing and other critical issues due to lack of an efficient monitoring and management information supporting system.

- **Projects approved not effective.**¹ Obtain the list of projects approved not effective as of 31 December 2015 and review the reasons for the delay.
- **Project effective not disbursed.**² Obtain the list of projects effective but not disbursed as of 31 December 2015 and review the reasons for the delay.

¹ Approved projects which legal agreements are not signed yet.

² Approved projects with signed legal agreements but has not been disbursed yet.

Link to Risk & Control Matrix

Audit Project	Nonsovereign Operations: Audit of Nonsovereign Transaction Origination and Approvals
Audit Project Objectives	(i) Evaluate overall compliance of the origination and approval process with OMD10
	(ii) Evaluate the design and operational effectiveness of the current origination process to meet organizational needs
	(iii) Assess the efficiency of relevant inter-departmental communication

No	What Could go Wrong	Initial risk Rating	Control	COSO Internal Control Principles Mapping	Design Effective?	Testing Approach (Operating Effectiveness Testing)	Operating Effectiveness	Reference to Issue Number
A. Overall								
R01	Opportunity costs may be incurred from potential projects that did not push through.	M	<p>Potential projects are written up in a Project Review Form for PSOD management to discuss. Any subsequent cancellation before concept review is due to the discussions and joint decision made by PSOD Management.</p> <p>Projects that have been Board Approved but not signed are monitored by ORM and CTL.</p> <p>PSOD prepares a memo to explain the reasons for partial or full termination after board approval.</p>	<p>6, 8</p> <p>16</p> <p>2, 8</p>	Y	<p><u>Discontinued, Not Effective, and Undisbursed Projects Review</u></p> <p>Dropped Projects.</p> <p>1. Survey. Survey PSOD's perception on the obstacles that stop viable deals.</p> <p>2. Statistics. Produce statistics on dropped deals, their percentages and possible reasons.</p> <p>3. What-ifs. Gather current status of the dropped deals and analyze if ADB can enhance the approval requirements and process to prevent dropping viable deals. If information is not available, the audit may survey other MDB's practice instead..</p>		

Linkages Summary

Control Component	Risk Assessment
Control Principle	6. Specifies relevant objectives with sufficient clarity to enable identification of risks.
Control Points	<p>a. Management has established and clearly communicated the company's mission, strategy and business objectives. Yes. This is reflected in strategy papers. Also PSOD's OMD 10 specifies the objectives of their operations.</p> <p>b. Management has access to feedback that enables the company to periodically assess whether company-wide objectives have been achieved. Yes. Board meetings are held periodically to discuss matters such as results of operation, future objectives and strategy, etc.</p> <p>c. Key performance indicators and measurement criteria for achieving company-wide objectives and strategic goals have been communicated, are adequately monitored, and are uniformly understood. Yes. The ORM department assists departments in monitoring operational risks and trains them how to continuously monitor their KPIs.</p> <p>d. Business plans and budgets are consistent with company-wide objectives, strategic plans and current conditions. Yes. There is periodic budget review.</p> <p>e. Company-wide objectives are sufficiently broad statements and guidance on what the company desires to achieve, yet are specific enough to relate directly to your company. Yes.</p> <p>f. Resources are generally sufficient to achieve the objectives established for processes in your department and, if not, plans are in place to acquire needed resources.</p>

committed to achieving the objectives
Yes. This is shown in the Development Effectiveness Reports and other Annual Reports produced by PSOD.

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Conclusion Principle present and functioning.

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D. Feedback Summary

Benefits

Systematic method

Added confidence

Drives discipline

Challenges

Level of perspective

Impact on Timeline

E. Pilot Take-Aways

- Assessment Tool is key
- Refine/Tailor the Questionnaire

Ready for Phase 2 Pilot!



Resources Link

		References Used
COSO	www.coso.org	Internal Control—Integrated Framework Executive Summary Framework and Appendices COSO Illustrative Tools for Assessing Effectiveness
IIA	www.theiia.org	International standards for the professional practice of internal auditing
Protiviti	www.knowledgeleader.com	Internal Control Questionnaire
Ernst & Young	http://www.ey.com	Internal Control Questionnaire
ISACA	www.isaca.org	COSO-COBIT Mapping

Knowledge Sharing