Optimizing SOX, NAIC and FDICIA Management Assessment Compliance new COSO Monitoring Guidance

Need a COSO alignment?

To hear Presenter please turn on computer speakers

If you cannot hear the presenter
with your speakers you may call

916-233-3088 Access Code: 176-076-184

Webinar ID:452-630-217

Lord & Benoit
Shining Light on Section 404 Compliance

Disclaimer

"...even though that's what I said, it's not what I meant."

The literature contained herein is not intended to substitute authoritative literature published by the respective regulatory agencies. Professionals are advised to consult with legal and accounting authorities on all matters before implementing professional standards.

To hear Presenter please turn on computer speakers

If you cannot hear the presenter with your speakers you may call
916-233-3088 **Access Code: 176**-076-184
Webinar ID:452-630-217

Lord & Benoit
Shining Light on Section 404 Compliance

Continuing Professional Education

Please turn on computer speakers to hear presenter

There will be instructions at the end of this seminar on obtaining CPE credit* for this webinar.

To qualify you must attend at least 50 minutes of this webinar.

* Please note: State Boards of Accountancy have final authority on the acceptance of individual courses for CPE credit.

• Lord & Benoit is not registered with NASBA.

Lord & Benoit
Shining Light on Section 404 Compliance

Continuing Professional Education

Please turn on computer speakers to hear presenter

Copies of Slides will be available on website
www.Section404.org
Education, Training & Seminars

Lord & Benoit
Shining Light on Section 404 Compliance

Biographies and Introductions

Bob Benoit is the president of Lord & Benoit, a full service internal controls consulting firm (SOX, NAIC, FDICIA, GAO, IT) virtually worldwide. Lord & Benoit focuses on adding value to small to mid sized public companies, insurance and banks. Bob serves on the COSO Monitoring Project Taskforce. He has served on the AICPA Peer Review Acceptance Board in MA for ten years. He has taught Compliance with SOX 404 throughout the country through the State CPA Societies. He is the author of the Lord & Benoit Reports, which have been referenced by the SEC, PCAOB, Wall Street Journal, Business Week, all Big 4 firms and over 200 newspapers, magazines, legal, educational and trade journals. Bob is also the first evaluator to use the 2006 COSO Guidance for Smaller Public Companies, the inventor of *Virtual SOX* taught on the AICPA Technology website and research contributor to the SEC Subcommittee, SEC Concept Releases and SEC/PCAOB Internal Control Roundtables

2004

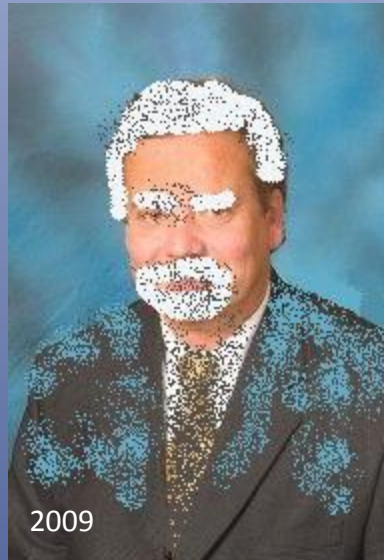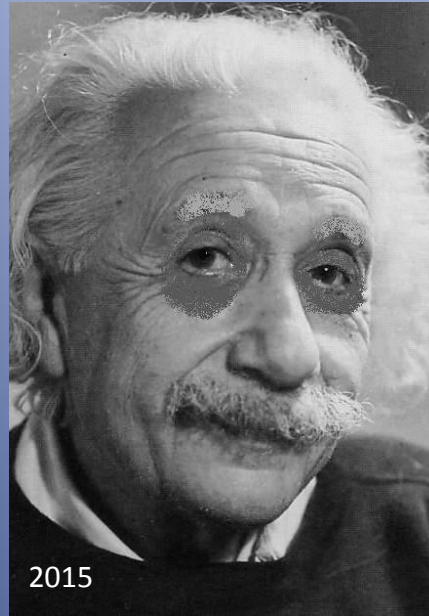**To hear Presenter please turn on computer speakers**

If you cannot hear the presenter with your speakers you may call
916-233-3088 **Access Code: 176**-076-184
Webinar ID:452-630-217

Lord & Benoit
Shining Light on Section 404 Compliance

After Sarbanes-Oxley Section 404

2009

If you cannot hear the presenter
with your speakers you may call
916-233-3088 **Access Code: 176**-076-184
Webinar ID:452-630-217

Lord & Benoit
Shining Light on Section 404 Compliance

Forecasted Image…

2015

Lord & Benoit
Shining Light on Section 404 Compliance

Free Resources

o "Virtual SOX" Driving Down Costs

o Ongoingly Lord & Benoit releases white papers such as

o Education

To hear Presenter please turn on computer speakers

If you cannot hear the presenter with your speakers you may call
916-233-3088 **Access Code: 176**-076-184
Webinar ID:452-630-217

Industry Specific Research

Lord & Benoit releases leading edge SOX education and research. For instance, "Impact of SOX on the Manufacturing Industry".

Manufacturing Industry

If you cannot hear the presenter
with your speakers you may call
916-233-3088 **Access Code: 176**-076-184
Webinar ID:452-630-217

Lord & Benoit
Shining Light on Section 404 Compliance

Course Outline

What Changed in the *New* Monitoring Guidance?

Did it change the Nature and Purpose of Monitoring?

Foundational Principles

- Tone from the Top
- Organizational Structure
- Roles of Management and the Board
- Characteristics of Evaluators
- Baseline Understanding of Internal Control Effectiveness

Design and Execution Strategies

- Understand and Prioritize Risks
- Fraud risk
- Design of Controls
- Identifying Key Controls
- Identify Persuasive Information
- Ongoing and Separate Monitoring Evaluations
- Outsourced internal controls
- Using technology

Clarification of Assessing and Reporting Deficiencies

- Prioritize and communicate
- Reporting internally
- Reporting externally

Lord & Benoit
Shining Light on Section 404 Compliance

# What Changed in the New Monitoring Guidance?
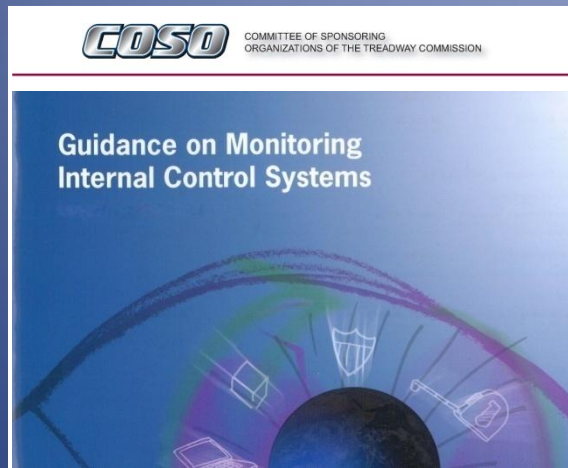
- Observations
- Improve Effectiveness, Efficiency and Reliability of Financial Reporting
- Eliminating Redundancy
- Illustrative Guidance
- Does not change COSO Framework
- Does not dictate risks to consider
- Does not mandate exact procedures
- Does not increase effort where monitoring is effective
- Does not mandate certain level of formality

Cha-cha-cha-cha Changes…
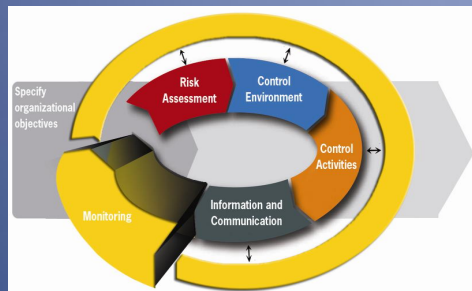

"If you haven't changed your framework you are doing a serious amount of over-work"

Lord & Benoit
Shining Light on Section 404 Compliance
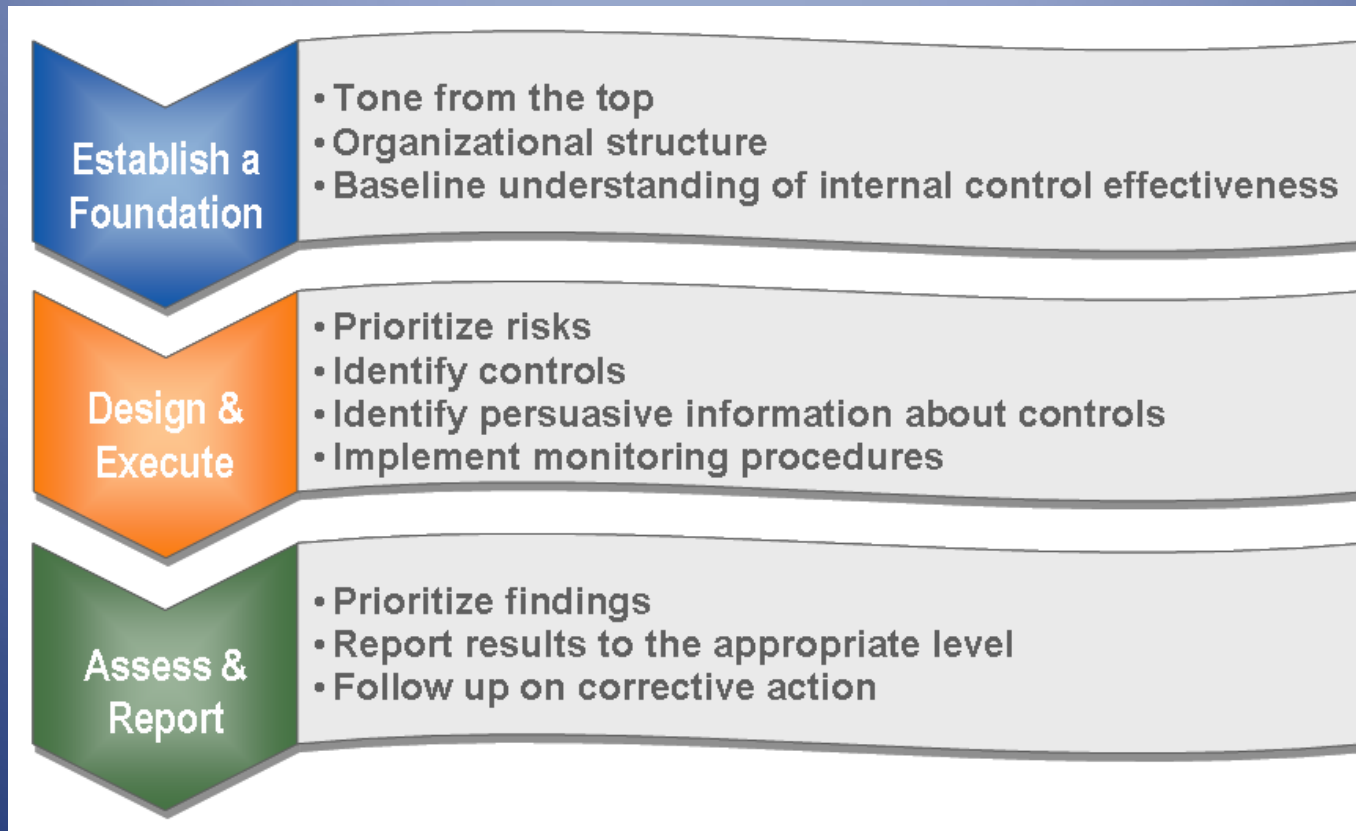
Cha-cha-cha-cha Changes...
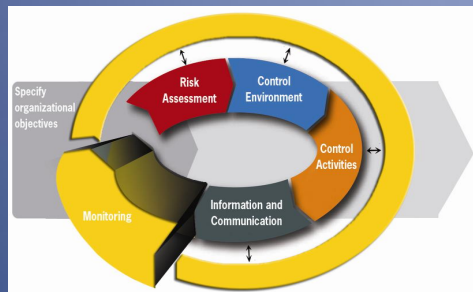
"If you are not using the new COSO Guidance for smaller companies, not only doing more work, but lack focus on financial reporting and IT.... and less effective."

Lord & Benoit
Shining Light on Section 404 Compliance
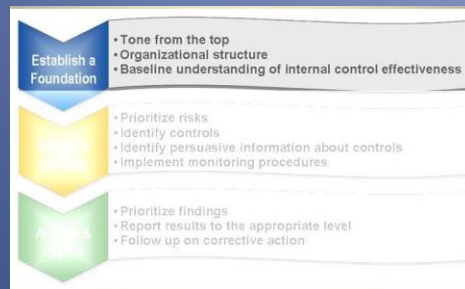
Nature and Purpose of Monitoring
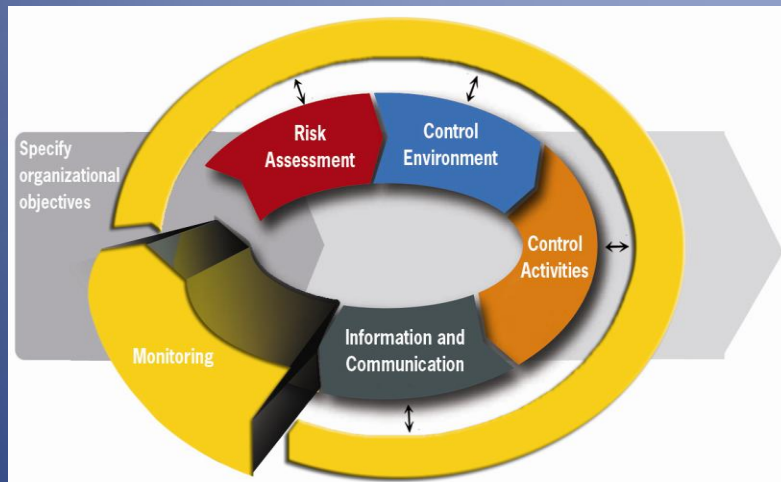
- Ongoing evaluations
- Separate evaluations
- Risks change over time
- Monitoring needs to be relevant
- Manage and mitigate meaningful risks to organizational objectives in its entirety

A Model for Monitoring

Establish a Foundation
- Tone from the top
- Organizational structure
- Baseline understanding of internal control effectiveness

Design & Execute
- Prioritize risks
- Identify controls
- Identify persuasive information about controls
- Implement monitoring procedures

Assess & Report
- Prioritize findings
- Report results to the appropriate level
- Follow up on corrective action

Lord & Benoit
Shining Light on Section 404 Compliance

A Foundation for Monitoring

- Tone from the Top
- Organizational Structure
- Roles of Management and the Board
- Characteristics of Evaluators
- Baseline Understanding of Internal Control Effectiveness

Lord & Benoit
Shining Light on Section 404 Compliance

Design and Execution of Monitoring Procedures

- Understand and Prioritize Risks
- Fraud Risk
- Design of Controls
- Identifying Key Controls
- Identify Persuasive Information
- Ongoing and Separate Monitoring Evaluations
- Outsourced internal controls
- Using technology

Assess and Report Results

- Prioritize and communicate
- Reporting internally
- Reporting externally

Lord & Benoit
Shining Light on Section 404 Compliance

Tone from the Top

COSO for Smaller Public Companies

Organizational Structure

- Organizational Chart
- Roles of Management
- Role of the Board

Role of Management and Board

- Audit Committee
- Manual Journal Entries
- Fraud
- Management Overrides

Characteristic of Evaluators

- Competency
- Objectivity
- Ongoing
- Separate

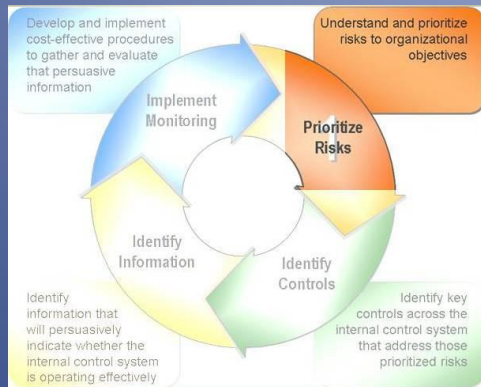# Baseline Understanding of Internal Control Effectiveness

Use of Estimates

Baseline Understanding of Internal Control Effectiveness

- Allowance, Obsolescence, Tax
- Standard costs
- Asset impairment
- Evaluation of goodwill
- Search possible loss contingencies

Lord & Benoit
Shining Light on Section 404 Compliance

Baseline Understanding of Internal Control Effectiveness

Internal Control over Financial Reporting

Lord & Benoit
Shining Light on Section 404 Compliance

# Design and Execution of Monitoring Procedures

- Understand and Prioritize Risks
- Fraud Risk
- Design of Controls
- Identifying Key Controls
- Identify Persuasive Information
- Ongoing and Separate Monitoring Evaluations
- Outsourced internal controls
- Using technology

Lord & Benoit
Shining Light on Section 404 Compliance

Design and Execution of Monitoring Procedures
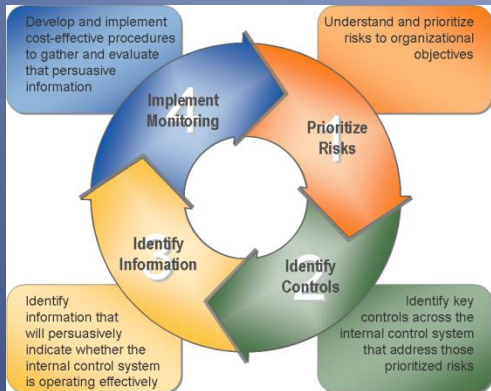
1. Prioritize Risks
2. Identify Controls
3. Identify Information
4. Implement Monitoring

Lord & Benoit
Shining Light on Section 404 Compliance

Prioritize Risks to Organization Objectives
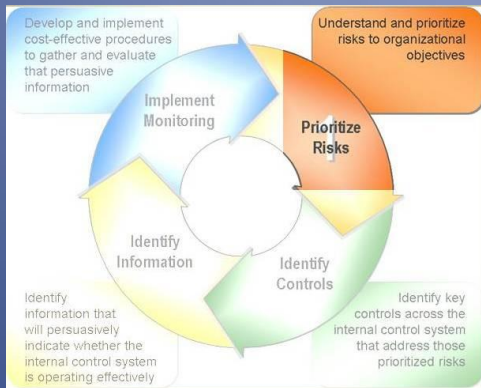
- Material or complex risks
- Systems changes
- Errors or Fraud Found
- High Turnover areas
- Past issues

Lord & Benoit
Shining Light on Section 404 Compliance

Prioritize Risks to Organization Objectives
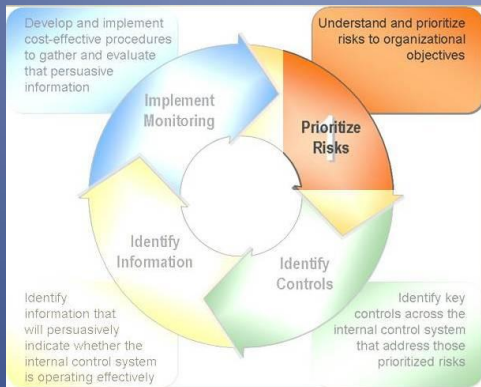
Enterprise Risk Assessment

Prioritize Risks to Organization Objectives

Fraud Risk Assessment
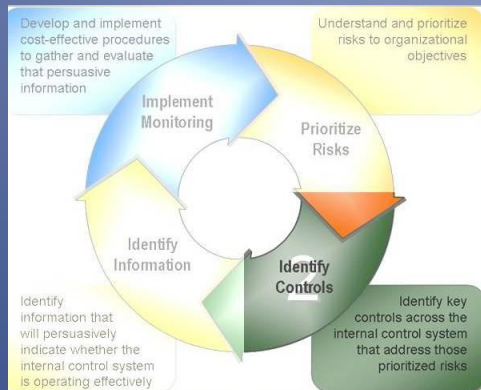
Lord & Benoit
Shining Light on Section 404 Compliance

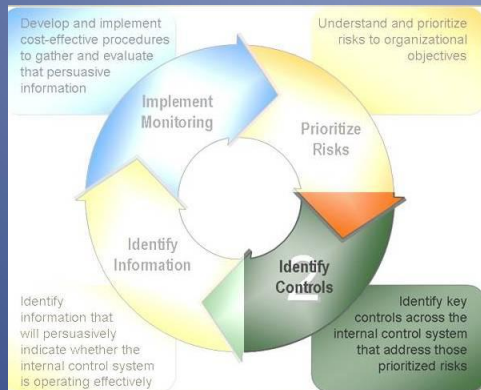# Prioritize Risks to Organization Objectives
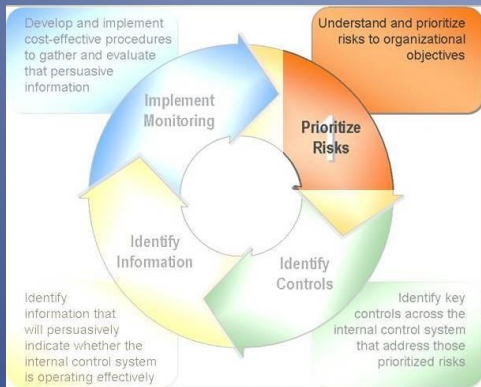
IT Risk Assessment

Identify Controls

Design of Controls

Identify Controls

- Significance and likelihood
- Key Controls to monitor
- Collectively

Lord & Benoit
Shining Light on Section 404 Compliance

Identify Persuasive Information
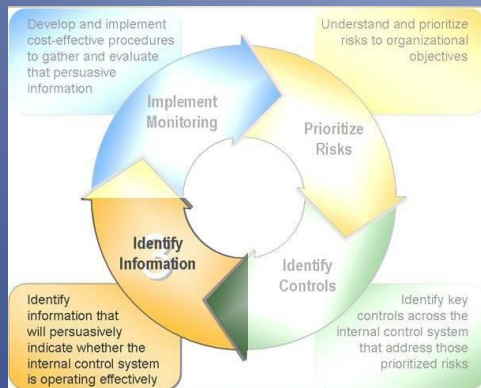
- Relevant
- Reliable
- Timely
- Payroll Monitoring (Direct vs. Indirect information)

Lord & Benoit
Shining Light on Section 404 Compliance

Identify Persuasive Information
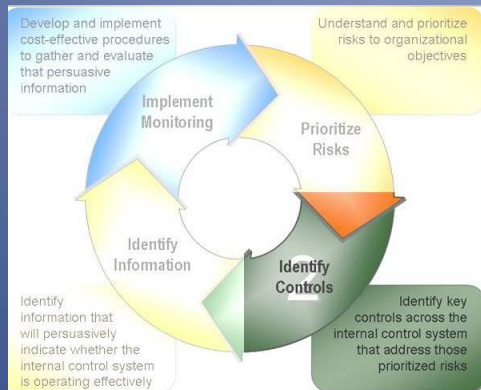
Sampling

Monitoring Procedures
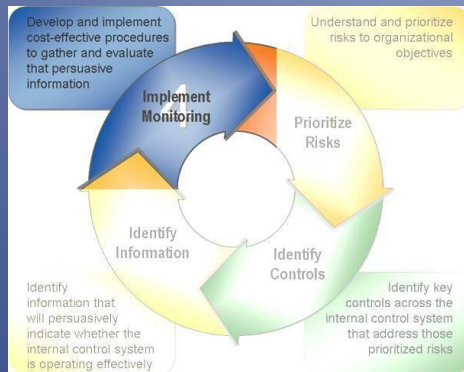
- Ongoing monitoring
- Separate evaluations
- Daily, weekly and monthly operational indicators See example in Chapter 5, Volume III)

Monitoring Outsourced Controls
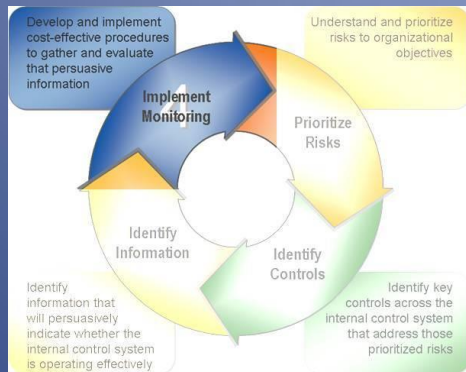
- Must still be managed properly
- Should understand and prioritize risks with those services
- Periodic information obtained
- Payroll Service

Lord & Benoit
Shining Light on Section 404 Compliance

Information Technology Monitoring

Internal Control over Financial Reporting - Guidance for Smaller Public Companies

- New Systems Acquisitions
- Change Management
- Security & Access - Logic

Lord & Benoit
Shining Light on Section 404 Compliance

Information Technology Monitoring

Internal Control over Financial Reporting - Guidance for Smaller Public Companies

- Security & Access – Physical
- Computer Operations
- Third Party Vendor

Lord & Benoit
Shining Light on Section 404 Compliance

Information Technology Monitoring

Internal Control over Financial Reporting - Guidance for Smaller Public Companies

COSO

- Application Controls
- Problem Management
- End User Computing

Lord & Benoit
Shining Light on Section 404 Compliance

Assess and Report Results

- Prioritize and communicate
- Reporting internally
- Reporting externally

Lord & Benoit
Shining Light on Section 404 Compliance

Prioritize and Communicate Results

- Prioritize
- Likelihood
- Compensating controls
- Aggregation of multiple deficiencies
- Experience and objectivity in control deficiency evaluation process.

Lord & Benoit
Shining Light on Section 404 Compliance

Report Internally

- Direct responsibility
- Oversight responsibility
- One level higher
- Board
- Minor Deficiencies
- Reportable Deficiencies
- Significant Deficiencies

Lord & Benoit
Shining Light on Section 404 Compliance

Report Externally

- Withstand scrutiny of outside auditors, regulators
- Using evaluators with higher degree objectivity
- Increase use of direct information
- Increased formality and documentation

Lord & Benoit
Shining Light on Section 404 Compliance

Optimizing SOX, NAIC and FDICIA Management Assessment Compliance new COSO Monitoring Guidance

The viewpoints expressed do not necessary represent those of the Committee of Sponsoring Organizations. Principle Contributors, Observers, Review Team or other members of the COSO Task Force

~   Bob Benoit
President Lord & Benoit, LLC

Lord & Benoit
Shining Light on Section 404 Compliance

Continuing Professional Education

**If you would like CPE credit* for this webinar:**

1. Please email **LizK@Lordandbenoit.com** today.

2. Be sure to include your full name in the email

3. You will be asked to complete an Evaluation Form and a Survey Questionnaire

We will send you a

1. Certificate of Completion form

2. Copies of Slides are available on website **www.section404.org**

Requests for CPE credit must be received by the end of class today

- *Please note: State Boards of Accountancy have final authority on the acceptance of individual courses for CPE credit.*
- *As mentioned earlier, Lord & Benoit is not registered with NASBA*

Lord & Benoit
Shining Light on Section 404 Compliance

Optimizing SOX, NAIC and FDICIA Management Assessment Compliance new COSO Monitoring Guidance
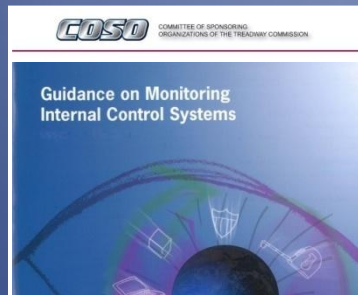
Questions?

Contact Information:
Lord & Benoit, LLC
Bob Benoit
(800) 404-7794 x204
BobB@LordandBenoit.com
www.Section404.org

Lord & Benoit
Shining Light on Section 404 Compliance