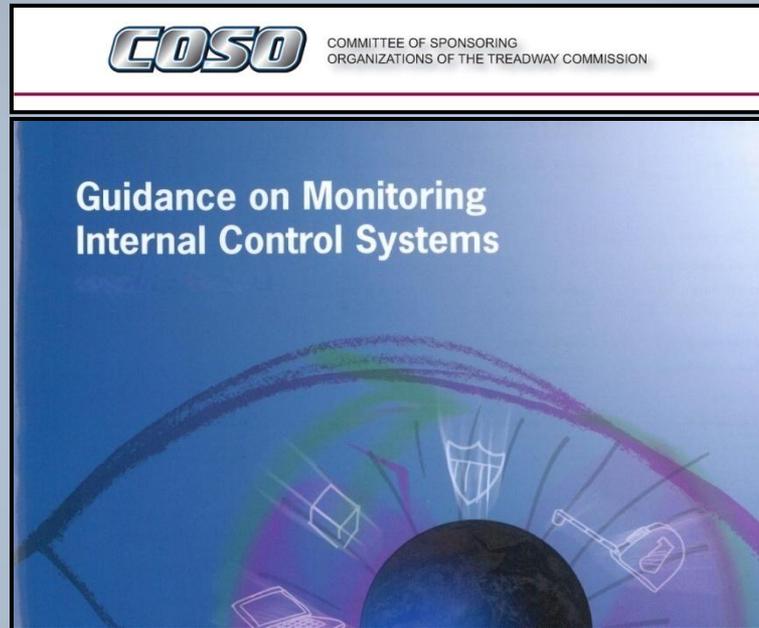


New COSO Monitoring Guidance – Impact to Smaller Public Companies



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Biographies and Introductions

Bob Benoit is the president of Lord & Benoit, a full service internal controls compliance firm (SOX consulting, NAIC, FDIC, GAO, SOX IT) with clients worldwide. Lord & Benoit focuses on the unique needs of small to mid sized entities. 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*

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Lord & Benoit's Thought Leadership



- “Virtual SOX” Driving Down Costs



- Ongoingly Lord & Benoit releases white papers such as



- Education

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Industry Specific Research

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



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Disclaimer

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.

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Course Outline

Purpose of Monitoring Guidance

Nature and Purpose of Monitoring

Practical Examples of Establishing 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

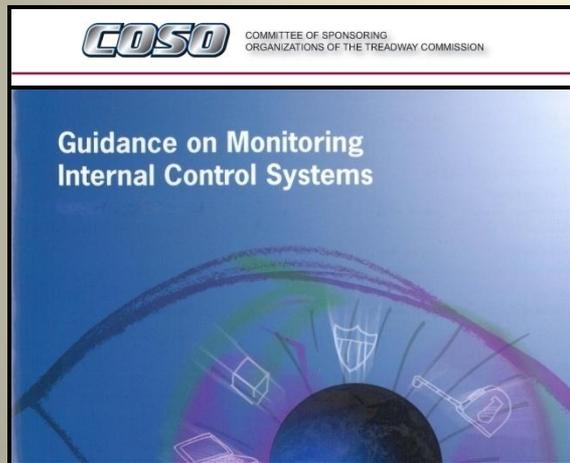
Practical Design and Execution of Monitoring Procedures

- 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

Practical How to Assess and Report Results

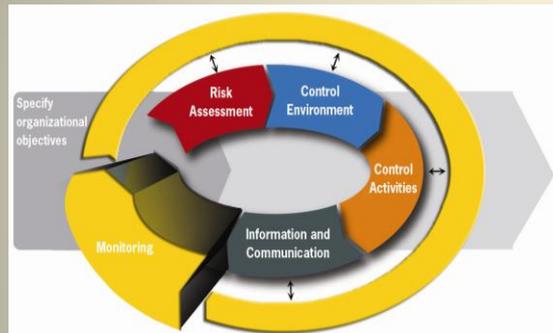
- Prioritize and communicate
- Reporting internally
- Reporting externally

Purpose of Monitoring Guidance



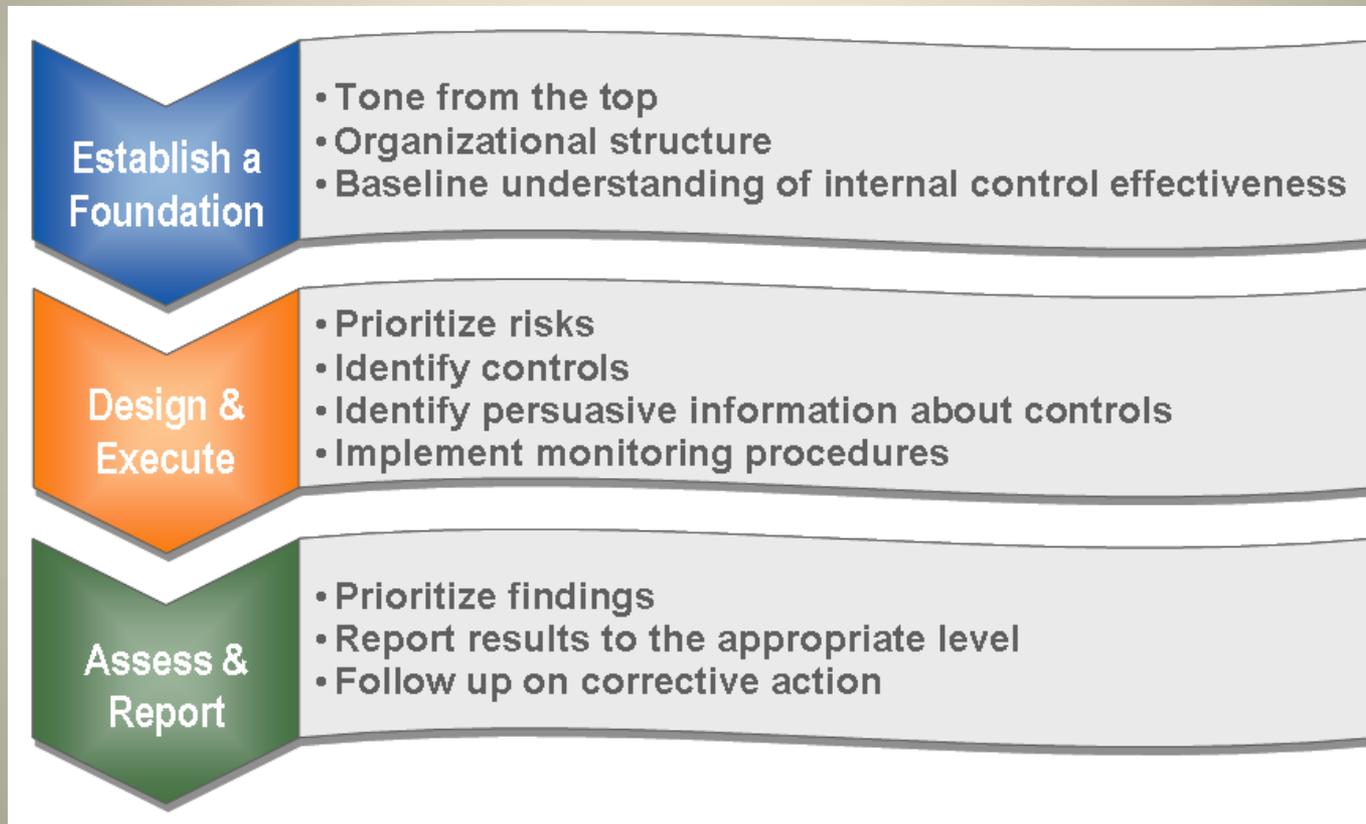
- Observations
- Improve Effectiveness, Efficiency and Reliability of Financial Reporting
- Eliminating Redundancy
- Illustrative Guidance
- Does not change COSO Framework
- Does not dictate risks to consider
- Does not mandate exact procedures
- Does not increase effort where monitoring is effective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

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



Establishing 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

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
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- Using technology

Assess and Report Results



- Prioritize and communicate
- Reporting internally
- Reporting externally

Tone from the Top

Example of Professional Services Organization



- COSO Usage Document (see Appendix A for excerpts from this document)

Organizational Structure

Example of Small Software Company



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

Role of Management and Board

Example Small Manufacturing Company



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

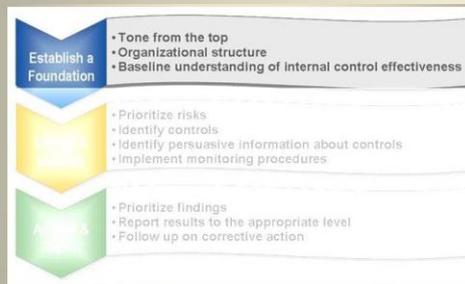
Characteristic of Evaluators

Characteristics of Evaluators



- Competency
- Objectivity
- Ongoing
- Separate

Baseline Understanding of Internal Control Effectiveness



Example: Small Semiconductor R&D Organization

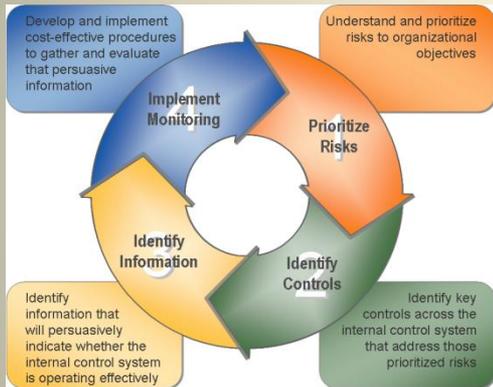
- Selection of GAAP
- Use of Estimates
- Allowance
- Standard costs
- Asset impairment
- Evaluation of goodwill
- Search possible loss contingencies

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

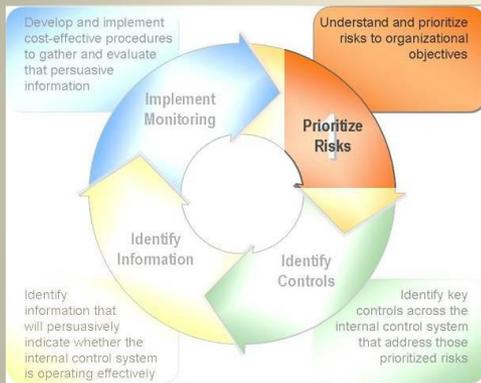
Design and Execution of Monitoring Procedures



1. Prioritize Risks
2. Identify Controls
3. Identify Information
4. Implement Monitoring

Prioritize Risks to Organization Objectives

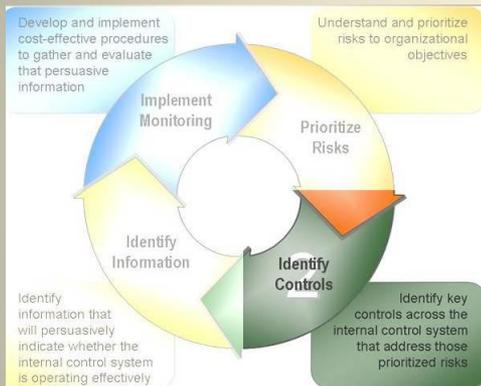
Example: Beverage Manufacturer and Distributor



- Material or complex risks
- Systems changes
- Errors or Fraud Found
- High Turnover areas
- Past issues

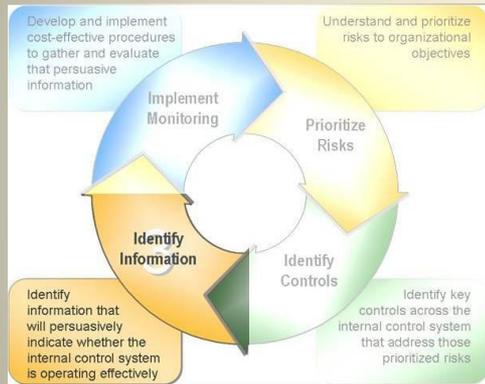
Identify Controls

Example: Small Manufacturing Company



- Design of Controls
- Significance and likelihood
- Key Controls to monitor
- Collectively

Identify Persuasive Information

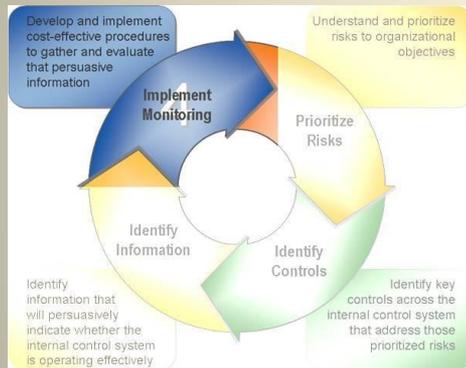


Example: Medium Sized Manufacturing Company

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

Implement Monitoring Procedures

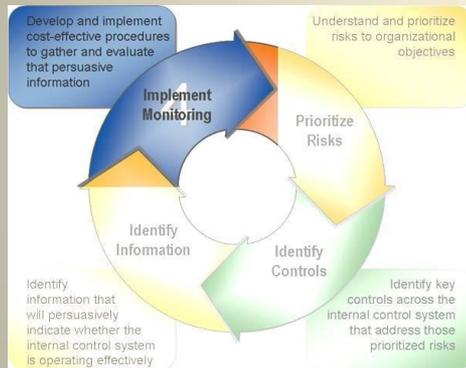
Example: Chain Retail Store Company



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

Monitoring Outsourced Controls

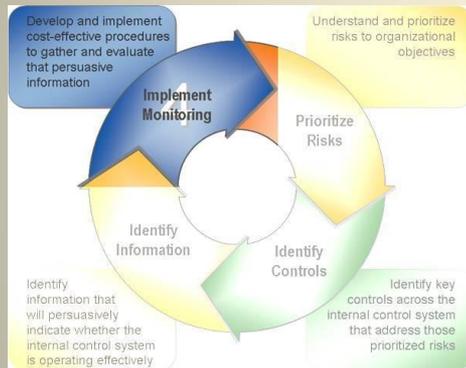
Example: Manufacturing Company



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

Using Technology for Effective Monitoring

Example: Financial institution



- Continuous control monitoring
- Loan granting
- Loan provisioning/performance
- Money laundering
- Counterfeit checks
- SARs (Suspicious Activity Report)
- Wire transfer anomalies
- Charts with regression analysis for non performing loans

Assess and Report Results



- Prioritize and communicate
- Reporting internally
- Reporting externally

Prioritize and Communicate Results

Example: Government Agency



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

Report Internally

Example: Insurance Services



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

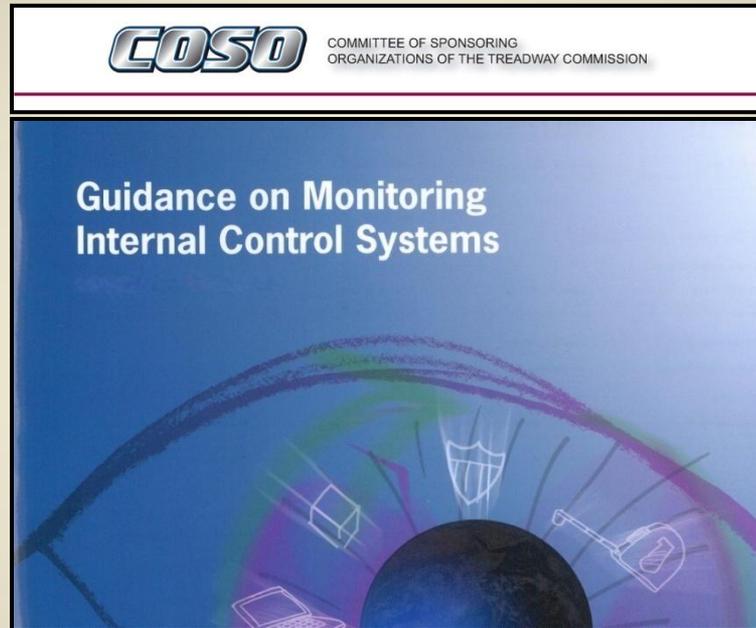
Report Externally

Example: Small Financial Institution



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

New COSO Monitoring Guidance – Impact to Smaller Public Companies



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~ Bob Benoit

President Lord & Benoit, LLC

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***New* COSO Monitoring Guidance – Impact to Smaller Public Companies**

Questions?

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