

**Extract from "Control Self Assessment: Risk Management &
Other Practical Applications" by Wade & Wynne published by
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**THE RISE AND RISE OF CONTROL SELF
ASSESSMENT**

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So What's New?

Like it or not, CSA - in one form or another - is here to stay. No matter how much you may be irritated by the hype, envious of CSA consultants' earnings, or despairing of the unthinking acceptance of claims that this is something original and life-saving, the momentum is so strong, its broad acceptance so widespread, and the reasons for its adoption in some cases so compelling that no internal auditor, line manager, senior executive, audit committee member or company director can afford to ignore its merits and impact.

Some six years ago, when it burst on the international scene in its present form, many were sceptical. "It's a JAF (Just Another Fad)", was the cry, "a successor to TQM, BPR, VFM and the like - a novelty dreamt up by consultants and academics with a short life-span and hidden limitations".

Certainly some of the claims and sales methods (*"If CSA is not adopted, internal audit will not survive"*) warranted some scepticism. (Initially many internal auditors feared the opposite: that implementation of CSA would be professional suicide. *"Allow managers to assess their own controls? The very idea! And where would that leave us?"*).

Some of us, looking on from the outside, could see the reasons for its advocacy and acknowledged its potential benefits. But equally at times it appeared to be a solution in search of a problem: a re-cycling but sophisticated re-packaging of old ideas and previously tried practices. The pictures painted were too black and white, too stark. Dogmatically it was asserted that CSA would replace traditional audit work: we would be wrong in continuing to use 'out-moded' audit methods. Many of the arguments put forward in support of CSA still tell me more about the nature and faults of the advocates' understanding and previous practice of internal audit, than the inherent advantages of control self assessment.

Inevitably, the compilation which follows, based in the main on practitioners' experience of the technique, stresses the benefits and successes. But it is vital not just to trot behind the pack. Like any other important decision, a business case must be made. The blind must not follow the bland.

It does depend where you (as an audit function or organisation) are coming from and going to. For an under-developed internal audit unit, the apparently radical and revolutionary step of introducing CSA could mean that the intervening stages of evolution are by-passed - with all the consequences, beneficial or otherwise. If your audit staff are in a rut or ineffective, if all other methods of getting managers to discharge their control responsibilities have failed, or if your directors are obliged to report publicly on the organisation's controls and audit cannot cope on its own, then CSA may well be the answer.



So - CSA may be regarded as a threat or an opportunity; a consultant's meal-ticket or the perfect answer to corporate governance requirements, audit success and management control. For some it represents a key element of the control framework, management philosophy and corporate culture. For others it is merely another useful audit tool, for use as time and circumstances warrant. As the examples in this book show, its introduction has transformed some audit departments: managers regard auditors as useful at last and partnerships are forged which result in the open discussion of risks and joint development of solutions. Other auditors worry about losing their independence (and perhaps ultimately their job). Deep down they don't trust managers and rationalise this by asserting that managers don't possess the objectivity, time, skills or knowledge to examine their own arrangements. And how can a 4-hour session by amateurs produce the same results as an in-depth, thorough, professional and independent examination by properly trained specialist staff? For those in a competitive audit environment (such as the UK National Health Service and the commercial firms selling internal audit services) who believe in its merits or are at least prepared to try it, the crucial question is 'will our clients buy?'.

As virtually all our contributors stress, introducing and operating CSA consumes an unexpected amount of time: the effort involved must not be under-estimated. A handful of large organisations have been able to experiment with CSA. But few enterprises can afford that luxury - especially if the experiment fails. Organisations need to move into CSA with their eyes wide open. Is it right for us in principle? And are we capable of introducing it successfully in practice?

"Ownership" of Control Self Assessment

In plain English, who is responsible for initiating, driving, running, managing, monitoring and evaluating CSA?

Up till now, I would guess that in 99% of cases it is internal auditors who first heard of and subsequently sought to introduce (and then manage) CSA programmes. They may have come across it in attending conferences, reading professional magazines or talking to colleagues. World-wide, only a handful of internal auditors in the upper reaches of the Amazon and wilds of Outer Mongolia have not come across the idea and considered its application. Many, of course, have been introduced to the concept and its 'advantages' through contact with consultants and professional firms providing internal and external audit and related services.

But internal audit must not own CSA. It is a management tool and a management responsibility. If involved in its introduction and operation, internal auditors must plan for their disengagement and the smooth transfer of responsibility.



The Nature and Development of CSA

There are as many definitions of CSA as there are approaches to it, and many are contained in this book. Some equate it with programmes designed to identify, assess and control risks, and define it in management terms. Others are 'audit-centric'. BT for example use CSA as "*an innovative approach to internal auditing which enlists the support of all people in the business both to review existing controls for effectiveness and in implementing improvements*".

Very crudely it is self-audit. From an internal audit perspective, it can be seen as teaching managers and their staff how to perform systems-based audits without the normal time, experience, training or skills. See Appendix 1 for other definitions.

The Institute of Internal Auditors - UK claim that "*a CSA programme is a process which allows individual line managers and staff to participate in reviewing existing controls for adequacy, and recommending, agreeing and implementing improvements to existing controls.*"¹ But the world does not revolve around internal audit. Rather, the other way round. We must not be condescending, allowing others to join in our ball-game but in accordance with our rules and reserving the right to take our ball home when we choose to. We, as internal auditors, are the privileged interlopers, despite our authority and independence. Managers have knowledge, rights and power. They 'own' control and the management of control, including where appropriate CSA and its operation.

Naturally I am biased towards my own definition of CSA, which highlights the essential features of the technique:

"A formalised, documented and committed approach to the regular, fundamental and open review by managers and staff of the strength of control systems designed and operated to achieve business objectives and guard against risks within their sphere of influence."

K W Wade 1993

Within CSA, there are three underpinning concepts and practices, which are by no means new in themselves, but might be novel to some in combination:

- Systems thinking - especially the focus on business processes, objectives, risk, environment and control
- Control evaluation: the systematic appraisal of the adequacy, application and effectiveness of the management control framework and systems designed to achieve

¹ "Control Self Assessment and Internal Audit", Professional Briefing Note 7, IIA UK, 1995.



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business objectives, contain risks, exploit opportunities, make best use of resources, and cope with the business process environment. Hitherto, of course, internally this appraisal has mainly been the preserve of independent internal auditors

- **Group involvement:** the use of facilitated teams to address issues and solve problems within their remit in a frank, but where necessary protected, manner by use of techniques such as brain-storming, business process analysis, and local knowledge.

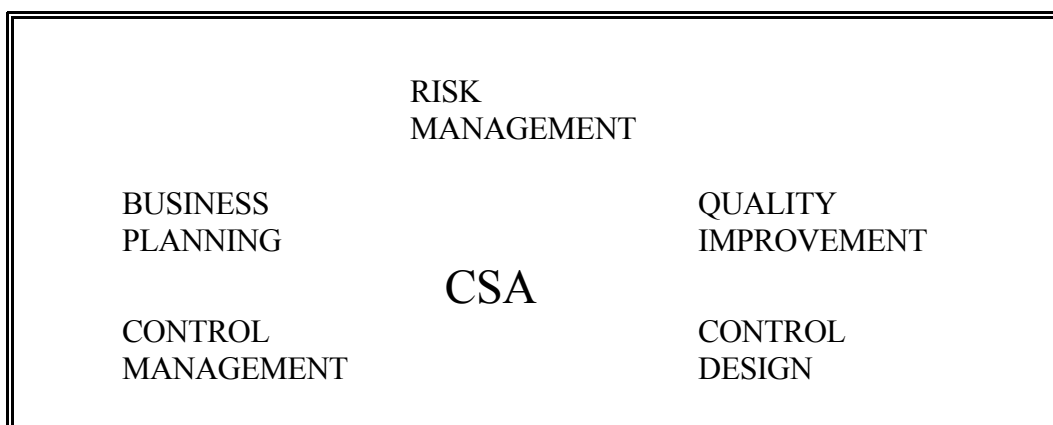
The use of workshops, more often than not with audit involvement, is only one approach to CSA, but it tends to be the method most frequently discussed if not necessarily adopted. Indeed the IIA Research Foundation publication "Control Self Assessment: Experience,

Current Thinking and Best Practices"² discusses only this technique.

Many of the characteristics of the various approaches are similar to other management techniques or 'fads', in the field of quality management, business process re-engineering (itself a re-packaging of old 'Organisation and Methods' ideas and practices), management by objectives, and the like.

CSA is also directly related to, and where necessary should be integrated with, other organisational processes such as business planning, risk management, quality improvement, control management, and control design (often using standard control models such as COSO³).

FIGURE 1



² IIA Inc - Research conducted for the IIA Ottawa chapter by Arthur Andersen, published in 1996. ("Dedicated to all those who choose to see the future as it can be, and dare to make it that way.")

³ The integrated control framework published in 1992 in the report of the Committee of Sponsoring Organisations of Treadway.



In most organisations, managers are beset with change, and are suffering from initiative overload. CSA must be needed, seen to be necessary, sold, not imposed, appropriate to the culture, and developed within existing mechanisms and projects. It mustn't be - or appear to be yet another fad.

Control Self Management

Ever since the first organisation, the first management text-book and the first auditor saw the light of day, it has been a truism that managers are responsible for control. It is recognised that control is inextricably linked with planning and setting goals, and that a control is any action taken by a manager to increase the chance of meeting objectives, achieving set standards of performance and guarding against risk. So why do we have to keep repeating this? I don't have the space nor energy to even begin to answer the question here, but it certainly needs to be addressed when implementing CSA. Once controls have been put in place, it's only common sense periodically to make sure they are still adequate, appropriate and effective. Controls are never perfect, people are human and circumstances change.

Review and appraisal mechanisms should be part of any control system, and monitoring (including the periodic re-appraisal of controls) is a key element of the COSO framework.

But the assessment of controls by managers needs to be set in the broader context of the management of the whole of the control process: i.e. Control Self Management and Assessment (CSMA). This recognises the broader control duties of managers and uses as a framework the life-cycle of control development, implementation and review.

My own standard, bi-partite approach to business process analysis, separating strategic matters from operational practices, can be used to describe the control management cycle in broad terms:

- A Overall Arrangements: establishing the control environment, including the corporate commitment to control, attitudes, responsibilities, standards, systems and structures

- B The Control Process:
 - 1 Determination and specification of the need for control: overall, in particular operations and for specific issues (including an assessment of risk)
 - 2 Design of an appropriate control framework, systems and mechanisms
 - 3 Establishment of the control procedures
 - 4 Operation of controls on a day-to-day basis
 - 5 Maintaining control: to ensure continuing appropriateness and adequacy, proper application in practice, and effectiveness in achieving its purpose



- 6 Reviewing the control system: periodic management appraisal (CSA) complemented by independent assurance and professional assistance
- 7 Re-designing controls: to strengthen or otherwise modify where necessary
- 8 Demonstrating control: internal and, where required, external reporting, with validation where necessary.

See Appendix 2 for details.

The State of the Art

This book does not pretend to provide a definitive guide to the current position or best practice world-wide. It serves to provide a broad range of examples of the practical application of CSA, primarily in the UK. It assumes that by now most readers are broadly familiar with the concept and are seeking guidance on its practical implementation.

Broadly there are 12 phases of maturity in understanding and, where relevant, applying CSA:

- 1 Never heard of it (there can now be few such innocent souls)
- 2 Vague idea (awareness that it's a 'hot' topic and used by some auditors)
- 3 Greater understanding (through discussions with others, attending conferences, etc)
- 4 Enlightenment (perhaps with a hint of cynicism!)
- 5 Purposeful research (the desire to find out more: asking and shopping around)
- 6 Experimentation (if this can be afforded)
- 7 Decision (making the business case; acceptance, rejection or dithering, given other events and priorities)
- 8 Introduction (often phased, in carefully selected areas and with further pilot studies)
- 9 Adaptation and extension (up, down, across the organisation, addressing a broader range of issues and operations)
- 10 Refinement and consolidation (improving, tailoring, learning lessons)
- 11 Assured use (greater confidence and sophistication in implementation; all responsibilities)



properly assigned, and management and audit arrangements in place; teaching others, becoming a consultant)

- 12 And then? (Why have some, apparently successful users, abandoned it? And why do we rarely hear of the failures?)

So just like any project. And many of the problems are caused by poor project management, rather than any innate flaws in CSA.

Reasons for its Introduction

There are numerous reasons why CSA is being considered and introduced, but the driving forces (and related perceptions of the nature of the techniques) can be grouped into three categories, which will be briefly examined in turn:

- 1 As a new audit tool
- 2 To satisfy corporate governance and regulatory requirements
- 3 As a management tool and a means to reinforce managers' control responsibilities.

A New Audit Tool

"Control self assessment represents a quantum leap forward in the internal auditing process."
Arthur Andersen, for IIA Research Foundation

"Rubbish - unless internal audit has been in the dark ages for the past 25 years."
Keith Wade, for auditors everywhere

Internal audit reactions to CSA have been mixed. At a professional level, the IIA-UK responded strongly in its Professional Briefing Note to the perceived threat to internal audit, arguing that CSA should not be seen "superficially as an attractive cost savings exercise" and a replacement for the internal audit function. Whilst admitting to the possible benefits, and giving guidance on setting up and running a CSA programme, the Institute frets about the validity of some of the claims made, the benefits from a truly independent assessment by internal audit which may be lost if CSA is used a substitute, and the dangers of audit objectivity being compromised through too close an involvement, for example as project managers or workshop facilitators.

Nevertheless the UK Institute has a CSA Users Group under its auspices and in the USA IIA Inc



established in January 1997 a Control Self-Assessment Centre "to offer guidance, training and communication opportunities to individuals engaged in the practice of Control Self Assessment". Enthusing about the technique, the IIA grandly claim that:

"CSA is a powerful tool of corporate governance that can be used by internal audit, management, and other functions to examine and assess business process and control effectiveness within the organisation. CSA helps auditors evaluate informal or subjective controls that could not be reviewed in the past in areas such as ethics, management philosophy, and human resource practices. By encouraging employee involvement, CSA solicits open communication, teamwork, and continuous improvement. CSA assures the Board of Directors and senior management that the organisation is meeting its objectives.

The IIA CSA Centre will provide its participants with:

- *a forum for sharing new information, innovative techniques and successful practices*
- *The CSA Sentinel, an exclusive tri-annual newsletter*
- *Professional guidance on CSA implementation*
- *A series of CSA conferences, seminars and workshops, and upon satisfactory completion, a CSA Qualification.*

The CSA Centre aims also to foster development of the body of knowledge surrounding implementation of control models (COSO, COCO, Cadbury, and others) that use control self-assessment workshops and techniques."

At the practitioner level, some auditors regard CSA as of no or marginal interest. For others it represents a fundamental change in approach. Within organisations, there are many apparent benefits to audit in introducing CSA: it could be used:

- where audit resources are stretched, to ensure a broader 'audit' coverage of the organisation's operations
- to help extend audit scope into operational matters, significant business risks, strategic operations and 'soft' issues such as ethical conduct, informal controls and human behaviour
- to demonstrate the value audit can add by working with managers to improve their controls, at the same time enhancing audit's image, relevance and contribution



- to focus audit work on high priority issues
- to ensure audit keeps in touch with operations at 'grass-roots' level and the day-to-day concerns of staff, adding balance and understanding to the audit process
- to boost audit morale and inject new life into a flagging section
- to help discharge any audit responsibilities to provide an annual assurance on the state of control.

Many organisations, such as the Inland Revenue internal audit service, latched on to CSA as a means of improving audit productivity - covering more ground with the same or even fewer resources. In the well documented case of MAPCO Inc, it is claimed that the audit cycle time was reduced from five to three years without an increase in staff.

One UK government department introduced CSA on a selective basis for both audit and managerial reasons:

- as an alternative way of confronting resource and other obstacles to the implementation of audit action points, and
- to provide increased risk awareness across the organisation. As delegated powers were extended through the department, there was a greater shift to making managers more accountable for the resources they consumed, the systems they were responsible for, and the results achieved. Consequently there was a pressing need for line managers and operational staff to be more acutely aware of the risks to the business.

Others have linked CSA to related developments. Several audit functions, for example, use it as a means of responding efficiently to the COSO requirement to examine the full range of control elements and issues. But there may be other, more appropriate solutions to the audit problems and challenges implied above.

Less objectively, CSA may be introduced because audit might be seen to be out of date and out of touch if it is not doing it. Or, as some powerful 'gurus' claim, CSA is the answer because traditional audit methods have failed: they are inefficient, ineffective, inappropriate and add little corporate or local value. Not only this, but times have changed and external expectations demand reform. Sweeping changes in business, an 'empowerment' culture and a dynamic environment require a more participative, 'hands-on', user-friendly audit approach and the transfer of responsibilities and techniques.



Some of this is no doubt true. But let us not ignore the options nor the interests and background of the advocates. Internal audit must indeed 'add value' (whatever that awful buzz-phrase means) and keep up with the times. But CSA is just one option for change. And if adopted, it can be used in many ways:

- to replace internal audit, in whole or in part
- to complement and supplement, but not supplant
- to cover activities and issues which otherwise would not have been subject to audit
- as part of a 'conventional' audit: as a preceding phase, an extension of planning, an alternative means of control evaluation, or a 'bolt-on' addition.

Its application may be selective or comprehensive; it may be used to revolutionise or merely refine and extend the audit methodology.

Let us be wary of generalisation and exaggeration, of inappropriate use in the wrong circumstances and culture. As in all purchasing decisions, 'caveat emptor'.

[To be fair, some of the early proponents of CSA are showing signs of moderation, humility and flexibility. For example, Bruce McCuaig of MCS Control Training and Design Inc. in Ontario (and formerly of Gulf Canada, acknowledged as the birth-place of modern approaches to CSA) writes in the June 1998 edition of "Internal Auditor":

"Many of us who pioneered the control self-assessment (CSA) concept in the later 1980s and early '90s, myself included, held the view that control self-assessment would one day completely replace the traditional audit as the primary assurance tool in the auditor's tool kit. We were wrong.

Nonetheless, control and risk self-assessment has become a highly effective assurance tool with a diverse range of applications extending far beyond what we ever imagined when a co-author and I wrote "Ripe for a Renaissance", an Internal Auditor article published in December 1990. In describing CSA approaches we had developed at Gulf Canada, we suggested that the process could be narrowly defined and that one basic CSA process would fit all the assurance requirements of any organisation. We believed that if the choice had to be made between traditional direct report audits and CSA, then CSA would win hands down every time. We vastly underestimated the strategies that would emerge and where each would work."]

There is a risk that CSA is over-sold and its adoption is inappropriate or unnecessary. But let us also re-examine the essential role of internal audit and recognise the flaws, limitations and needs



of some audit functions.

Conceptually, the essential role of internal audit has not changed in 25 years. Nor does it need to. Internal audit in the independent appraisal of the adequacy, application and effectiveness of management systems of internal control designed and operated to promote the achievement of business objectives and required standards of performance. This is - and always will be - internal audit's core business.

The overall aim is to help strengthen the framework of control by whatever means are appropriate. The challenge is to promote effective control for an acceptable cost. Internal audit's task is to provide both independent assurance and practical assistance whilst reconciling the two.

So audit is no longer simply a matter of performing audits. The use of CSA may indeed be an appropriate means of strengthening control and helping managers to discharge their control and risk management responsibilities.

In some of its forms, CSA is little more than an extension or refinement of conventional systems-based audits. At a recent NHS controls assurance seminar, one consultant from a well-known firm was privately embarrassed to admit such. That's fine, as long as we don't pretend. If it achieves its purpose and we all benefit and are satisfied with the results, so be it.

But it has to be admitted that for far too many auditors the concepts of business systems, objectives and risks are new. If not new, for some the application of systems (or "business process") audit methods is not advanced, or is confined to financial, administrative or low level activities.

A stated aim of the NHS Executive's Controls Assurance project (incorporating the introduction of CSA in a series of pilots), was (yet again) to encourage internal auditors in health trusts and authorities to stick their noses over the parapet separating financial systems from the real business of hospitals, and work with managers and clinical staff in examining operational issues. Some success can be claimed But is it solely due to CSA? Perhaps it is the maturer audit functions which see limited use for the technique.

No doubt the reader of this text is both mature and enlightened, and so will not need to read my later chapter (Appendix 3) on the application of business systems techniques by auditors and managers. But you may have a colleague who may find it useful



CSA as a Response to Governance and Regulatory Requirements

Undoubtedly in many countries a major driving force behind the introduction of CSA has been regulatory pressure on organisations: particularly the requirement to report publicly on controls.

Back in 1977 in the USA, the Foreign Corrupt Practices Act was the precursor to further legislation (such as the Federal Deposit Insurance Corporation Improvement Act of 1991) demanding that organisations provide assurance to third parties on the state of their controls.

Just as the United States had its Lockheed scandals and Savings and Loans disasters, so in the UK we had Maxwell, Polly Peck, BCCI, Barings, and the like, with the saga continuing with tales of 'fat cat' directors, pensions mis-selling, more rogue traders, 'black-holes' in the accounts and other causes of regulatory, public and government concern. Section 4.5 of the

1992 Code of Best Practice of the Cadbury Report⁴ recommended that directors should report on the effectiveness of internal control. This was watered down in the subsequent Rutteman Report ("Internal Control and Financial Reporting"⁵) which stated that, unless directors chose otherwise, the reporting requirement could be limited to confirming that the directors (or a board committee) have *reviewed* the effectiveness of the system of internal *financial* control. The guidance became standard for accounting periods beginning on or after 1 January 1995.

The Report of the Hampel Committee on Corporate Governance continued the debate: in his final report in January 1998 Hampel stated that:

"The board should maintain a sound system of internal control to safeguard shareholders' investments and the company's assets. This covers not only financial control but operational control..... Directors would still need to review the system's effectiveness but should not be required to report the results of that review".

Hampel therefore modifies Cadbury and Rutteman in that he recommends that:

- 1 Directors should review the effectiveness of the internal control system
- 2 They should not be required to report on the effectiveness of the control system
- 3 The reporting requirements should cover the whole system of control, not just internal financial controls
- 4 Auditors should report privately to directors on the controls.

⁴ Report of the Committee on the Financial Aspects of Corporate Governance chaired by Sir Adrian Cadbury

⁵ Internal Control and Financial Reporting - Guidance for Directors, published by ICAE&W, December 1994



At the time of writing we await the production of a 'Super-Code' from the UK Stock Exchange consolidating all corporate governance requirements for listed companies.

In the regulated sectors in the UK, especially financial services, there are increasing requirements on directors to disclose their control arrangements, and for external auditors to report on those arrangements to the regulators.

(It should also be noticed in passing that the English Institute of Chartered Accountants in England and Wales (ICAEW) have recommended that companies with publicly traded shares should voluntarily lead the way with the introduction of enhanced risk reporting in their annual reports. The statement of business risk would:

- " * identify and prioritise key risks
- * describe actions taken to manage each risk; and
- * identify how risk is measured. "

Not surprisingly, support from companies has not been overwhelming).

Many parts of the public sector have adopted the Cadbury and other principles of corporate governance, as a reflection of good practice, to improve standards of public accountability, in reaction to the occasional public scandal and as a response to the various reports of the Nolan Committee⁶.

Central government bodies must report through their Accounting Officer on their internal financial controls starting from 1998/9. The suggested wording from the Treasury for the Accounting Officer's report states that "*My review of the effectiveness of the system of internal financial control is informed by the work of internal auditors and the executive managers within my department.*" The guidance points out that government departments will need a reliable process for gaining and giving assurance, with information from various sources and parties. Internal audit will provide some of this information, through their own assurance statements, but should also review and advise on:

- the overall arrangements for corporate governance
- the assurance process
- selected routes (including CSA).

Those routes could also include other internal review teams, external consultants, standard systems such as management information, budgeting, project management and capital investment control, on-going consideration at board/director level, and a certified bottom-up

⁶ Lord Nolan chaired the Committee on Standards in Public Life, set up in October 1994 as an 'ethical workshop' by John Major. It is now a standing committee chaired by X.



hierarchy of management assurances.

NHS trusts and authorities are required to provide public assurance on the condition of their financial controls as from 1997/8, and the whole system of internal control for 1999/2000.

The NHS Executive stresses that *"the focus of the Controls Assurance Project is to improve healthcare through more effective systems, with an assurance statement being just one outcome of that process."* It requires that boards of authorities and trusts satisfy themselves that systems are in place to ensure that risks are assessed and properly managed. *"The implementation of controls assurance principles will demonstrate to the wider community that each board is not only satisfied that there is an integrated system in place to manage risk and improve healthcare, but that such a system can be clearly described."*

As does the Treasury, the Executive advises that CSA is but one way of helping derive assurance.

The NHS Controls Assurance Project must be seen in relation to other aims and projects: originally the development of internal audit and risk management processes, but latterly and, more importantly, the improvement of patient care and services, and greater public accountability through existing mechanisms such as clinical audit and more recent initiatives concerning the quality and effectiveness of clinical care and doctors' performance.

So from where might directors, audit committee members and senior managers obtain their information and gain their assurance about the adequacy and effectiveness of controls? Internal audit is one obvious source, but although internal audit functions are increasingly being required to provide an annual assurance on the overall control framework, the scope of their work and therefore their assurance will inevitably be limited. Other review activities (such as quality assurance and health, safety and environmental auditors where they exist), ad hoc reviews and regular sources of information may provide a further degree of assurance. (And note that specialist functions such as those just listed will provide data and opinions to support any public statements on controls in particular areas, such as an Environmental Statement. In the public sector, certain specific control assurances are sought by The Treasury [central government] and Audit Commission [local government and health] relating to such matters as value for money, fraud and corporate governance).

But the obvious answer is to turn to divisional and line managers and require them formally and honestly to assess the strength of control in areas of their responsibility. The results of this process are collected, consolidated, verified as appropriate and used for both accountability and control improvement purposes.

External auditors may also of course be a source. However in the private sector currently they



are reluctant to go beyond the minimum reporting requirements on the directors' own report. Nevertheless the Management Letter may be a valuable source of information in so far as it notes control issues as a by-product of the audit. Given the different circumstances and wider duties of external auditors in the public sector, there may be greater scope to make use of their work to add to or confirm assurance gained internally. And it is open to any organisation to commission external consultants to perform an internal control review.

At the time of writing (March 1998), The UK Auditing Practices Board has published its consultation draft on "Providing Assurance on Internal Control". The document explores the options available to "reporting accountants" (including internal audit in their definition) and proposes a "Framework of Principles" applicable to engagements intended to provide assurance about internal control. It is mainly concerned with "private reporting" to those commissioning the engagement, and the role of the external auditor in such assignments. The technical guidance contained in the publication will come as no surprise to an internal auditor.

Regulatory pressure was a major factor in the development of CSA in Canada, and is becoming so in many other countries around the world. Obviously the particular regulatory requirements will have a significant influence on the nature and form of CSA within the organisation. As we state so often in this book, for the successful implementation of CSA it is essential that the reasons and objectives be clear and a commitment made. Even if the organisation is not required to publish its opinion on the state of its controls, it obviously makes good business sense periodically to review the adequacy, application and effectiveness of the control systems overall, in particular areas and relating to particular business issues, and to arrive 'privately' at an informed view, for example through an audit committee.

Appendix 4 summarises some of the main requirements for public reporting on control.

CSA as a Management Tool

Although outside pressures may provide the strongest stimulus, the main driving force behind CSA ought always to be the perceived and carefully evaluated business need. CSA can be an appropriate, opportune and powerful way of helping managers to recognise and discharge their responsibilities for control as described on page 5 and summarised in Figure Y [INSERT MODEL]. CSA can serve to re-inforce the control message and clarify management's responsibilities. It may well be a suitable technique if the organisation is seeking to devolve power to line managers, strengthen accountability or achieve a sense of common purpose and a set of common values. Conversely it may be used as a catalyst for changing the culture of the organisation, although many will warn that CSA can fail or back-fire if the environment is not right. It may be opportune to employ CSA during times of organisational re-structuring, acquisition or merger. New procedures for business planning, quality assurance and other



initiatives can also provide opportunities to integrate CSA in management arrangements. CSA may provide benefits for internal audit and help organisations meet corporate governance requirements. But its future lies in its integration into an organisation's values, corporate structures and day-to-day management processes.

If adopted or perceived as an annual, imposed, form-filling exercise for the benefit of others, the chances are it will be seen as a chore, a one-off bureaucratic exercise, and will ultimately fail.

Although more-and-more commentators recognise CSA as a management tool, sightings are few in the pages of management texts or course material. The authors of the IIA Research Foundation's publication give fulsome praise to the Control Self-Assessment Concept as a vital tool for any organisation seeking a new understanding of its business processes, better methods for employee empowerment, or simply a different approach to internal auditing.

"In 1986 and 1987, a new technique was developed in Calgary, Alberta, which had an initial effect on internal auditing, and more recently on the general field of business management. The concept is simple: rather than interview corporate staff and management in a series of one-on-one interviews, bring the entire group into a single room for interview and discussion. That initial concept has evolved into the most exciting management development in years - a broad, flexible technique that can be 'tuned' to examine the highest-level management issues or to audit the most detailed business processes.

In this research study, the authors describe control self-assessment (CSA), explain the critical issues involved in adopting and implementing it, and explore the best practices for its success..... Control Self-Assessment: Experience, Current Thinking, and Best Practices is a must read."

But the focus of the research is still on the implications for internal auditors.

Yet if CSA is to be introduced, by internal auditors or whoever, its benefits to management -at all levels - must be sold. The most commonly claimed benefits are these:

- directors and senior managers derive information and assurance about control across the organisation
- an annual CSA cycle will normally provide a greater frequency of review than equivalent internal audit coverage
- line managers obtain a better understanding of risk, and are put in a position of being able to develop their own approaches to dealing with the obstacles which



- get in the way of achieving business objectives
- the participative approach facilitates consensus at all stages of the process and between all parties
- 'ownership' and 'buy-in' to action plans improve timely and effective implementation of corrective measures
- CSA helps managers to discover the root-cause of problems
- it can be used as a generic management tool: its application can be widened beyond risk and control to address other issues such as process efficiency, customer satisfaction, staff morale, quality improvement, etc
- a common language, set of values and control models (such as COSO) can be introduced throughout the organisation
- open participation brings out the best in staff, improving morale, releasing information, generating ideas and creating better working relationships and communications
- it transfers responsibility for risk and control from auditors to managers and employees.

Many others are described in the following pages.

The benefits depend of course on the methods adopted. Many stem from group workshop techniques which are not peculiar to CSA, or from simply finding the time to look afresh at current arrangements.

Finally, in considering CSA as a management tool, it should be noted that many externally set standards for particular management systems, for example relating to quality (ISO 9001 series), environment (ISO 14001 and EMAS - the European Eco-Audit and Management Scheme), and health and safety (e.g. the Standards of BSI and the Health and Safety Executive) require some form of management 'review', 'audit' or 'self-assessment' as a key element of the overall arrangements. Evaluating their own controls is by no means new to many people. What may be new is the development of a common methodology and its systematic application, together with active participation of staff. Such approaches, however, may not be appropriate.



Approaches to CSA

There are many forms of CSA, involving internal audit to a greater or lesser extent: they can be grouped as follows:

- 1 an enhanced form of normal internal audit practice (e.g. through adopting a more participative approach in audit assignments)
- 2 audit initiated control awareness seminars (perhaps open to managers and staff from several parts of the organisation)
- 3 the use of management letters of representation concerning
 - a) financial controls, or
 - b) all controls, addressing the broad range of control and performance issues(i.e. "self-certification", normally annually)
- 4 management use of risk and control assessment techniques and forms, including control questionnaires (to ensure that their assessment is structured, comprehensive, documented and as objective as possible)
- 5 practical control assurance workshops - a systematic, open-minded approach to the assessment of control and risk using group methods; currently the workshops are usually facilitated by internal audit but they should be regarded as an integral part of the management control process and framework. The workshop approach itself takes various forms.
- 6 management and staff assume total responsibility for control design, implementation, review and reporting, with independent examination and practical specialist assistance when necessary but on an exception basis.

It is in the fifth sense in which CSA is now most widely understood, if not practised. Several of these methods could be used in conjunction.

The various approaches and attitudes to CSA can be seen as a continuum, ranging from management indifference to control and review, presuming that the responsibility lies elsewhere, perhaps with audit (increasingly rare, we hope!), to total management acceptance and commitment, with minimal or no audit involvement. After all, to the quality experts, audit is a "cost of failure". It could be argued that the ultimate goal of internal audit is to ensure the



abolition of the function or at least reduce dependence upon it. The message from audit to management is "Don't rely on us".

The aim is to transfer responsibility to where it rightly belongs, and to pass on to managers guidance and techniques, such as internal control questionnaires (ICQs) and evaluation sheets (ICEs), which hitherto have been confined to audit use. But anything an auditor does can -and perhaps should - be done by managers. The 'audit trail' should correctly be re-named the 'management trail', enabling line managers to follow the line of accountability. File interrogation packages should be used by employees to extract and analyse data for which they have responsibility. Some auditors no doubt are loath to relinquish the arcane tools of their profession. And is it fair or appropriate to expect staff to use such techniques with no training or little time or inclination?

Shortly we will examine the possible role for internal audit in CSA. But we should note now that time should be allotted before, during and after CSA exercises for guiding staff through the basic concepts of control and risk, explaining how techniques such as ICEs can make control assessment more efficient and effective, and demonstrating ways of strengthening the control framework.

All six CSA methods are covered in the book. They are briefly summarised below:

1 An enhanced conventional audit approach

This builds on standard audit practices, using a more participative style. Throughout the audit process, auditors, managers and staff work closely together in planning the assignment, analysing the business processes, identifying, evaluating and where necessary testing the critical controls, forming the opinion, considering means of improvement, and agreeing and implementing the action plan.

For many this is no more than a statement and marginal refinement of good audit practice. Others may quail at the thought of reduced audit independence - of rolling up the shirt-sleeves, addressing the important business issues, talking to real people and coming up with practical answers, not anodyne advice. This may simply reflect the age-old dilemma: how best to reconcile the often conflicting demands of independent examination and practical assistance. Or it may indicate a reluctance by some auditors to enter the real world - or a lack of understanding of how to do so.

As an example of this 'enhanced' approach, an article in December 1997's "Internal



Auditor"⁷ described how auditors assist managers and staff to assess their risks and control using the COSO⁸ framework as a model. This audit approach is based on three premises:

- (i) people know best: the staff of an organisation are best placed to provide insights into the strengths and weaknesses of their processes
- (ii) internal auditors should work 'in a collegial spirit' to identify control problems and solutions
- (iii) the use of focus groups and 'affinity processes' provides one of the most efficient and effective means of gathering substantial amounts of highly relevant and useful data.

These methods are supported by self-completed control question check-lists and individual interviews. Agreement is sought on levels of inherent, residual and acceptable risk, and corroborative evidence obtained before the final audit assessment is made.

2 Spreading the gospel through control awareness seminars

This is hardly a form of CSA. But remember: audit is much more than simply performing audits. Raising levels of awareness and giving practical guidance to managers and staff from across the organisation can be a cost-effective way of gaining information and strengthening control.

Many auditors have found that time is normally needed during a CSA project (preferably before a workshop if circumstances permit) to explain the essential concepts and practices of control, control assessment, and control design.

3 Management Letters of Representation

This is a tried and tested method used by many external auditors to obtain reassurance from CEOs and FDs, who in turn seek assurances from relevant line managers about the adequacy of the relevant financial controls in the accounting period. This approach can be extended to be forward-looking and constructive, covering operational issues related to key business objectives for corporate and local benefit.

⁷ "COSO-Based Auditing" Mark R Simmon, "Internal Auditor", December 1997.

⁸ Committee of the Sponsoring Organisations of The Treadway Commission. The 'COSO model' appears in the 1992 publication "An Integrated Control Framework". The 'Control Criteria' recommended in the Cadbury and Rutteman reports are derived from the COSO model.



Making self-certification an annual requirement can act as a powerful incentive, especially if coupled with known validation and appropriate action if returns are discovered to be carelessly or even falsely completed. The risk is that the exercise is seen as an chore and the response may not be entirely reliable, especially if the task is given to the wrong person. Attitudes and practices (corporate and local) will depend on the culture, but a positive, participative approach, perhaps facilitated by internal audit, should help reduce any problems.

4 Questionnaires and Surveys

Internal control questionnaires, risk identification and prioritisation, and other survey techniques can be used across-the-board or for individual business units and processes. Any auditor knows both the advantages and pit-falls of questionnaires, and their use within audit functions is declining. They can serve as useful checklists to help managers assess their own controls and they can be used to gather comparative data relatively efficiently. However, once more guidance needs to be given in their use and the interpretation of the data.

Some 'gurus' look down on questionnaires, excluding them from 'true' CSA approaches, arguing that form-filling cannot beat team-working. But as a relatively cheap and efficient way of introducing CSA they may have their place, as contributions in this book try to show.

They may be used in their own right, or in conjunction with workshops - before, to gather advance data, or during, instead of voting technology. Some questionnaire-based approaches, such as ASDA's SAS methodology, are sophisticated software based packages incorporating self-help checklists, control databases, scoring systems and automated action plans - far removed from traditional paper-based audit ICQs. Others simply use modified ICQs.

5 Workshops

It is the workshop format using group processes and the frank and broad-ranging which has received most attention and herein, many claim, lies the essence of CSA and the secret of success. There are in fact various formats. Workshops may:

- be one-off or part of a series
- involve solely managers or include their staff
- be self-run or facilitated by others, such as internal audit or outside consultants
- be 'low tech' or heavily dependent on computers to enable anonymous expression



- of views and rapid data capture and analysis
- focus on business control, risk, processes, objectives, constraints or performance (in practice, workshops must include all six elements)
- address hard or soft controls (or both)
- be single or multi-issue: a particular topic or business area may be selected, or the whole of the activities of the operation may be examined
- operate at high or low level: examining control issues ranging from clerical activities to board perspectives
- function as a stand-alone exercise or as just one element of a CSA programme
- be horizontal (covering inter-departmental issues), vertical (specific to a business unit), or both.

The contributions in this book describe various approaches. The pioneers of CSA (e.g. Makosz and Leech, out of Gulf Canada Resources) and firms of consultants (as many as you might name) have developed proprietorial methodologies.

Procedures vary. Workshops may be preceded by surveys, interviews or training. In conduct, some workshops are template-driven or use other methods of systematically analysing business objectives, processes, risks, controls and environment.

Others are free-form, and benefit from open discussion and brain-storming techniques. Often control models such as COSO or CoCo⁹ are used as a basis for comparison, evaluation and re-design. A range of technical, procedural and behavioural techniques may be employed, including risk mapping, electronic voting, group stimulation and the like. Some methods owe much to quality management techniques. Or you can do your own thing.

Results of workshops may be used to inform senior management or audit committees, to provide assurances for public reporting, to prepare local action plans for improvement, or to enable auditors and others to direct resources to problems and identified weaknesses.

More sophisticated approaches seek to explore issues other than 'pure' control, and to integrate control frameworks with other paradigms such as the Baldrige and European quality models.

The advocates of workshops stress the aims and advantages of an open, group process approach, in that it helps to:

- harness group knowledge
- identify different perspectives
- stimulate ideas

⁹ The model developed by the Criteria of Control Committee of the Canadian Institute of Chartered Accountants.



- elicit information which otherwise would not have been provided
- form a consensus view on the issues raised
- create group commitment to action
- clarify operational roles and responsibilities
- promote ownership of processes, controls and change
- highlight 'soft' issues such as business ethics, informal controls, and individual, group and corporate behaviour
- build and mend relationships.

In short, workshops profit from the power of people.

But organising, running and facilitating workshops is not easy. Nor is it necessarily comfortable for the participants. The contributions which follow provide lessons and advice on managing and participating in workshops, especially from an audit perspective, and address such issues as objectives, scope and approach; composition; timing, frequency and duration; pre-session activities and follow-up; ownership and support; pilots and full-scale programmes; and other matters.

6 Sole Searching

This is the ultimate form of CSA.

"Thanks very much for helping and showing us the way. But you can leave it to us now. Call in from time-to-time: we would still welcome the occasional objective opinion, impartial advice and practical assistance from experts such as yourselves. And naturally we recognise your right and duty to provide independent assurance and validation to the board. But, rest assured, we can cope. You can rely on us from now on."

So speaks the line manager who accepts and feels able to discharge their control responsibilities and conduct their own control reviews. The sign of successful audit efforts.

As mentioned, earlier, all auditors must plan to disengage - to ensure the correct allocation of control responsibilities and to avoid the practical consequences of over-dependence on audit and excessive participation in CSA programmes. Auditors can then simply audit CSA as an embedded part of the control framework, helping and intervening only when appropriate. (And don't forget, CSA may be just one part of the overall control jigsaw.)

But before withdrawing, auditors may have a lot of hard work to do



Roles and Responsibilities of Internal Audit

Duties, activities, authorities and expectations will depend on the form of CSA adopted, the audit function's policy towards it, and any specific roles assigned to audit by the organisation. The key message should be clear by now: audit may initially drive CSA, but must not own it.

Three strands can be discerned when considering the role of and implications for internal audit:

- 1 Options for audit involvement in CSA
- 2 Using CSA for audit purposes
- 3 Auditing CSA.

These are briefly explained in turn. Comment, analysis and advice will be found in the main text.

1 Options for audit involvement

- (a) initiation and promotion: as experts in control, being aware of latest developments; (we have already observed that many still see CSA narrowly as an **audit** technique)
- (b) project management: normally a consequence of the above
- (c) ownership: a serious risk, following from (a) and (b); (IIA-UK's uncompromising view is that *"If it is the organisation's intention to maintain internal audit as an independent appraisal activity, then we consider it inappropriate for internal audit to be involved in the day-to-day management of the control self-assessment programme"*.)
- (d) workshop facilitation: requiring new skills and reactions. (Note that IIA were not 'comfortable' with this either, in their view 'making internal audit a component part of the execution of CSA' and compromising audit objectivity. *"It will also be clear"* the Institute states *"that it is harmful to the best interests of the business for internal audit to abandon a conventional internal audit programme of work in favour of exclusively committing to facilitating a control self assessment programme"*.)
- (e) providing other form of work-shop support (e.g. organising the meeting(s), note-taking, providing the technology, issuing the report)
- (f) giving advice and guidance: to line management and staff on control and risk and control assessment techniques, and to all relevant parties on CSA itself; acting as a consultant at various stages of the implementation of CSA and the operation of CSA exercises



- (g) educating and training: as experts in control and control evaluation auditors can go further and provide useful practical coaching outside and within a CSA programme.

2 Using CSA for audit purposes

The use of CSA as an audit tool was considered earlier. In summary it can be employed:

- (a) to replace internal audit totally: in theory abolition is the long term aim of internal audit, but the case for an independent form of assurance and source of specialist advice can always be argued
- (b) to replace certain audits: where it is decided that CSA is a more efficient or effective approach
- (c) to reduce audit work, if audit decides the results of a CSA exercise can be relied upon
- (d) to extend audit coverage into business issues (e.g. ethical and environmental) and activities (e.g. commercial operations) which otherwise would not have been covered at all or to the desired depth, through lack of support, resources or ambition
- (e) to modify (or revolutionise) the audit approach by introducing aspects of CSA into normal audit assignments, encouraging the ownership rather than the imposition of control
- (f) to perform certain assignments: CSA may be felt to be of especial relevance in particular circumstances (e.g. organisational re-structuring), areas (e.g. health and safety) or operations (e.g. where considerable authority is devolved to a business unit)
- (g) to add to audit knowledge: a CSA workshop can inform future assignments and confirm existing opinions
- (h) to point audit to areas of concern or interest; the results of CSA programmes can highlight weaknesses for subsequent audit investigation and reporting (managers and staff may not be too keen on this!).

3 Auditing CSA

- (a) auditing CSA as a project: assessing the procedures and controls before, during and after implementation
- (b) auditing the CSA process: once established, assessing its adequacy, application and



- effectiveness as part of the organisation's control framework
- (c) auditing the results: assessing the benefits derived from the programme as a whole; verifying the results of individual CSA activities: e.g. the validity of management representations, the quality of workshops and reports, the extent to which agreed corrective actions have been successfully implemented.

Implications for Internal Audit

Obviously the consequences for internal audit depend on the extent of involvement and the roles and responsibilities assumed. On the positive side, CSA may take some of the pressure off internal audit as resources struggle to keep pace with demand. It may revitalise its processes and staff, demonstrate audit's usefulness at management and corporate levels, transfer control responsibilities to where they rightly belong, give a sharper focus to audit work, help audit discharge new tasks such as the provision of an annual controls assurance, and provide another string to their bow (which may bring in new business or at least preserve audit's presence).

As a useful by-product, CSA may also help the co-ordination of the various audit and review functions within an organisation.

It can be shown to be useful and timely for the organisation and audit's 'customers' in so far as it can be integrated with quality management and empowerment initiatives.

On the other hand some fear that audit objectivity may be compromised and independent assurance lost. Savings in audit time through the introduction of CSA tend to prove illusory, at least in the short term. Indeed, the opposite is normally the case. CSA can be immensely time-consuming, as our contributors attest.

Many worry that quality may suffer: that without conventional audit probing and support, significant issues will be missed. Some auditors are attracted by the thought of completing a 30-day audit in 8 hours. Others believe that depth is inevitably sacrificed, objectivity lost, professional expertise wasted and that the productivity and information gains cannot compensate for the flaws in the process. By relying on the assessment and judgment of others, who are inevitably biased, untrained and too close to their own operations, auditors are distancing themselves even further from the direct examination of performance. Auditors are criticised for reducing the levels of their own substantive tests. How can the truth surface in a brief talk-shop?

The "cut-and-thrust" of a traditional audit is lost. Confrontation and conflict can be healthy and productive. In the words of IIA-UK, conventionally *"the veracity of internal audit findings and the aptness of audit recommendations are tested in the crucible of an often sceptical line*



management. No equivalently rigorous 'validity testing' may apply to control self assessment."

Few now advocate CSA as a complete replacement for conventional audit work. Where rock-solid assurance is required, materiality and risk are high and in other circumstances where uncontestable 'hard' facts are required professional audit expertise, using standards methods and painstaking examination, will be necessary.

Such doubts often linger even when CSA is introduced, causing some auditors to seek to validate workshop results or follow up with 'a proper audit'. Often one of the biggest problems believers experience in introducing CSA is convincing certain audit staff. And audit clients may prefer the 'old style' audit approach.

Critics point to other limitations. CSA they argue:

- misses cross-functional issues
- lacks the corporate dimension
- may result in the loss of a systematic, rational, prioritised corporate-wide assessment of risk
- can lead to excessive documentation, just like ISO 9001
- is inappropriate in some cultures and structures
- is expensive - especially if employing consultants, proprietary methodologies and computer technology
- could lead to duplication if audit and CSA programmes operate side by side
- may give the impression that concern for control is a once-a-year exercise
- may not be sustainable: the momentum and benefits may be lost after the initial sales-pitch and workshops.

In reply, proponents bemoan that if CSA is not adopted, auditors and managers will continue in their same old way; a golden opportunity will have been missed and in a changing world audit runs the risk of becoming more and more isolated from organisational requirements.

Changing attitudes is never easy. But also there are new skills to acquire. The advent of CSA has led to a boom in facilitation skills training. And in one UK government department, internal auditors have become so proficient in the art that their services are in demand to facilitate other forms of workshop such as quality circles.

Implementing a CSA Programme

Motives determine methods. It is one thing to tinker with new audit techniques. It is another to use CSA as a catalyst to change the culture of the organisation.



CSA successes, benefits, limitations and the occasional failure are documented in the pages which follow, leaving readers to judge its worth and appropriateness for themselves.

But many of the difficulties experienced in introducing and sustaining CSA have been caused not by inherent flaws in the concept, but by failures in project management, at both levels: implementing a CSA programme, and organising specific events such as workshops. Herein lie many of the lessons to be learnt in this book.

Studies and experiences stress the importance of:

- making the right decision in the first place, taking account of the organisation's business culture, policies and circumstances
- proper planning based on clear objectives and meticulous preparation
- effective consultation
- careful choice of business area in which to try out CSA
- marketing
- selecting and training the right staff, especially in facilitation skills
- realistic assessment of the time it will consume
- patience
- making allowance for the learning curve (shortened by benefiting from the experiences of others)
- efficient mechanisms to handle the large amounts of data generated
- avoiding an over-dependence on IT, which may fail and detract from the main purpose
- efficient, effective and fair reporting and use of results
- incorporating validation and quality assurance mechanisms into the CSA process
- being innovative and taking controlled risks
- visible senior and line management support
- developing ways of keeping the momentum going with minimal dependence on audit
- realising there is no one 'best way' of introducing CSA; the approach adopted must be suitable and tailored for the needs of the organisation.

Figure 3 summarises the essential stages of planning, implementing and withdrawing from a CSA project from an internal audit perspective.



FIGURE 3

INTRODUCING CSA

- 1) Decide objectives, reasons and benefits - for the organisation as a whole, management at various levels, internal audit and other stakeholders
- 2) Objectively assess the potential difficulties and limitations, and the appropriateness of the technique – in general and for particular parts or aspects of the organisation
- 3) Establish the business case - just like any other project and in competition with other possible ideas and claims on resources
- 4) Decide the best strategy, tactics and approach – after identifying the options, anticipating reactions and consequences, and considering resource implications
- 5) Identify responsibilities and interests - who should 'own' CSA? What role(s) should audit play?
- 6) Assuming the decision is made to proceed, sell the idea, responsibilities and the preferred approach
- 7) Organise the management and implementation of the project
- 8) Communicate: consult, inform, explain, educate and train where necessary
- 9) Implement phase one: pilot scheme in selected area (a workshop, survey, risk mapping or whatever approach selected)
- 10) Learn lessons: revise approach as necessary, use champions from phase one
- 11) Implement subsequent phases/full operation
- 12) Integrate with other projects and activities, e.g. business planning
- 13) Monitor: learn lessons, correct as necessary
- 14) Develop - further extension and refinement as appropriate
- 15) Transfer appropriate skills and responsibilities
- 16) Disengage
- 17) Audit



If well thought through and properly introduced, CSA can bring startling results. Enthusiastic users of CSA claim that it has improved the understanding and level of control at corporate, divisional and local levels, highlighted critical control issues, clarified responsibilities, increased confidence, integrated control and risk assessment with business activity, generated a common understanding, provided a better insight into the quality of the control environment, increased audit productivity, sharpened audit focus, and led to a large increase in significant findings and matters of business concern.

Whilst still at Gulf Canada, Paul Makosz asserted that:

- *"It enables an annual comprehensive evaluation of control*
- *It provides assurance that the risk of fatal breakdown in corporate ethics is non-existent*
- *Cultural "rogue elephants" have been identified (e.g. budgeting failures, productivity drains, accounting mismanagement)*
- *\$ millions have been recovered through focused audits*
- *Audit is constantly in touch with grass roots and emerging issues, providing immediate feedback to the CEO*
- *Audit is highly trusted throughout the company."*

Gulf held over 500 workshops in 7 years. At their peak, client-requested events exceeded the number of normal CSA workshops. It was claimed that major cultural weaknesses had been 'modified', and audit knew what was needed to improve Gulf's management style (and attempted to do it).

It was claimed that CSA penetrated to the root-cause of organisational issues, prompted staff to speak openly of the difficulties they encountered and express their forthright opinion about work matters, led to concentrated in-depth auditing with guaranteed prospects, produced rapid feedback and results, demonstrated the value audit could add to the business, and helped develop a range of "spin-off" techniques and internal audit consulting skills.

Its success, however, must be judged within the context of the culture, management style and environment of the organisation. Many observers view the Gulf Canada experience with incredulity - and perhaps some envy. For many organisations such an extreme approach is inappropriate.

The conditions need to be right. In Gulf Canada, there was

- an empowerment culture
- enthusiastic, innovative audit
- a simple and 'modern' approach to control (based on CoCo)



- a people orientation
- a proclivity towards extroverts
- an increasing audit bias towards a participative, consultancy approach
- a strong desire to expose ethical, social and other 'soft' issues.

Even if the conditions are appropriate and the objectives clear, it still needs to be "sold" at all levels - but especially to line managers.

For many it seems that the 'incidental' benefits, such as team-building and shared values have been the most important.



Two case histories describe the introduction of CSA in two organisations: the first a low budget exercise in a financial services organisation. The other, a major project in the Internal Revenue:

CASE HISTORY 1

CSA IN A FINANCIAL SERVICES ORGANISATION

Background

450 employees; offices in UK and overseas; solid company reputation; established culture; high exposure in a dynamic and occasionally troubled environment; young, determined chief internal auditor.

Aims, Reasons and Justification

- Corporate Governance and Regulation: Cadbury; high profile examples of malpractice in the industry
- Need for management to accept responsibility for control and adopt best practices
- Wish to broaden audit coverage.

Approach

- 1 Securing of top management commitment and Audit Committee support
- 2 Formal self-risk analysis by directors of business units (annually since 1992; free form – no standard approach)
- 3 Completion of standard self-certification forms, submitted to internal audit (6 monthly)
- 4 Analysis of data by internal audit
- 5 Report to Audit Committee
- 6 Regular test checks by designated staff to confirm control adequacy and effectiveness and maintain momentum
- 7 On-going acceptance by management of control responsibilities

The process was initiated by audit and supported by audit guidance and seminars: its completion and results were examined by audit with validation and follow-up where necessary.



Scope

Whole organisation; all control issues.

Main Messages

Control is a management responsibility and a continuous process. Don't rely on internal audit. Management own CSA.

Benefits

- Control made high profile
- Some problems highlighted, prompt action taken and controls improved
- Seen by managers as opportunity to raise issues
- Fewer surprises
- Better service from internal audit
- Focused audits
- Highlighted specific need for local management information

Role of Audit

Organisers, advisers, trainers and verifiers (where necessary) – plus continuing programme of 'conventional' audits.



Practical Matters

A number of practicalities need to be addressed. Should all auditors be trained as facilitators, or just a group? Not all auditors make good facilitators, and audit recruitment policies may need to be revised. There may be feelings of elitism. How is consistency to be obtained? Should documentation and procedures be standardised? Should auditors be allowed to experiment?

How can the process be made more efficient and less time-consuming? Using technology, handling large amounts of data, providing useful analyses and reports are issues which have caused problems for CSA users. Marketing CSA, training, preparing documentation, learning lessons and changing procedures all consume time. CSA will almost certainly not lead to a reduction in audit costs.

What should be the balance between 'normal' audit work and CSA? How quickly should coverage be extended, and on what basis? What should be the frequency and length of the workshops? Above all, how is it to be "sold" to directors, managers and clients as a useful and cost-effective tool? For many audit functions, this is the major challenge, especially if the aim is to get CSA and participative risk management into the organisation's 'blood-stream'. And once introduced, how will its success be measured? How long will it take?

The place of CSA within the organisation needs to be established. For some it is simply another audit tool. For others it is a management philosophy. It may be a passing phase, an evolution or a revolution. Many who have tried it state they have not realised its full potential. Some are now seeking to draw customers, suppliers, business partners, external auditors and other review groups into the process and to explore the application of CSA in non-discrete areas.

Both CSA and audit's attitude to it are maturing. Five years ago it was a curiosity. For many it is now a reality. Lessons are being learnt from the initial attempts at its implementation. There is greater awareness and a more objective and considered view. More and more auditors now realise it is nothing new. New words and powerful selling do not necessarily bring new ideas, more appropriate practices or better results.

Major projects have been initiated in several organisations, some centrally driven such as the pilot schemes in healthcare trusts sponsored by the NHS Executive. Managers are now recognising the benefits and increasingly are taking over administration and ownership of the process. CSA is here to stay.

CSA, and the role of internal audit, needs also to be set in the broader context of the whole raft of control and corporate governance initiatives affecting, directly or indirectly, organisations. Many issues (e.g. requirements post Hampel) remain unresolved. Will New Labour introduce legislation to govern companies' behaviour and reporting requirements? Regulators are flexing



their muscles. Codes of corporate conduct and audit committees have been introduced more widely into the public sector. IT developments press inexorably onwards. Integrated management and control systems are now realities, not aspirations. The control bandwaggon seems set to roll for ever.

The prime purpose of CSA must be as an integral part of a comprehensive control framework and a key element in a systematic assurance programme. It should re-inforce a constructive relationship between auditors and their clients, and line managers and their superiors and subordinates. As an essential part of the management process, and as expectations rise and external pressures mount, it is rightly here to stay.

As a part of the audit process, in most organisations it will complement other audit work, being an element of both individual assignments and the overall operations of the audit service. Management of CSA, however, should lie outside the audit function. Audit involvement should be scaled back after the initial setting up phase.

So audit too is here to stay: where it has earned the right. The theoretical case for the retention of internal audit can always be made. How objective the arguments are, however, remains to be seen. And poor auditing, out of touch with the business, its environment and the needs of its managers, does not deserve to survive.

KWW 2001



APPENDIX 1

DEFINITIONS OF CONTROL SELF-ASSESSMENT

- "Liberating management from audit." *Anon*
- "A work-shop based approach using facilitated group processes to examine business risks and controls and gain commitment through shared responsibility to action and improvement." *Paraphrase of IIA Research Foundation Study*
- "A process (including a trained facilitator using a structured methodology supported by computer technology) that allows groups of audit customers to more clearly identify the most important business risks, problems, control issues, solutions and opportunities within each business process or function." *Loach and Julien "Facilitation Techniques for Self-Assessment"*
- "The involvement of management and staff in the assessment of internal controls within their work group." *David and Fran McNamee "Facilitated Self-Assessment"*
- "A leading edge process which yields reliable, quantitative information regarding achievement of operational, financial reporting and legal compliance objectives. Teams of employees - the experts - are personally involved in facilitated workshops to determine their business unit's control strengths, weaknesses and opportunities for improvement." *Deloitte and Touche*
- "Control and Risk Self Assessment is a process that allows groups to identify and refine the business and quality objectives that they should be fulfilling, while assessing the adequacy of plans and controls that are in place to meet those objectives." *Tim Leech, MCS*
- "Control self-assessment operates on two levels as follows:

Team Level

Teams getting together with their manager and a specialist facilitator to analyse, within a control framework, the strengths, obstacles, and risks which impact their ability to achieve their objectives, and to decide upon appropriate action.

Organisational (or Systematic) Level

Analysing the results from all the team CSA work-shops across the organisation to define cultural strengths, weaknesses, and propensities to risk, find linkages between them, and identify root causes for the current state of control." *Paul Makosz, PDK*



APPENDIX 2

CONTROL SELF MANAGEMENT AND ASSESSMENT

"Management's acceptance and discharge of their responsibilities for the whole control process, including their obligation to establish appropriate control arrangements, monitor their application, and periodically review their adequacy and effectiveness. Managers are entitled to specialist advice, help where necessary and independent assurance. This does not relieve them of their duties and they are obliged to demonstrate that they have established an appropriate framework and process, and are in control."

K W Wade 1995

ELEMENTS OF CSMA

Overall Arrangements

- attitudes and commitment to control; control standards and priorities; the control environment
- reasons for control; range of objectives and issues; external and internal drivers and requirements; business needs, accountability and governance
- relation to business objectives, principles, tone and culture
- the overall internal control framework: integration within the organisation; co-ordination of the various control issues and elements within the framework
- responsibilities for control at all levels; respective roles of board, senior and line managers, internal audit, other specialists and advisers, external audit, audit committee, etc
- control structures, systems and procedures.

The Control Process

- 1 Determination and Specification of Need
 - internal and external pressures to establish and demonstrate control
 - clarifying objectives, determining relative importance of control and main control issues
 - understanding control
 - risk assessment (related to business objectives)
- 2 Design of Appropriate Control Framework
 - acceptance of need for overall control framework
 - agreement on control criteria, standards and values
 - determination of scope of control and key control objectives



- recognition of controllable and uncontrollable factors
 - construction of control framework and systems, using generic models where relevant
 - development of specific key controls: hard and soft
 - recognition of practicalities and residual risk
 - coping with change
 - integration with other frameworks, systems and initiatives
- 3 Establishment of the Control Procedures
- testing of proposed arrangements
 - training, gaining commitment; changing attitudes
 - implementation
- 4 Operation of Controls
- day-to-day running
 - recognition, acceptance and application of control
 - embedding
- 5 Maintaining Control
- monitoring adequacy and continuing suitability
 - ensuring proper application
 - checking effectiveness
 - dealing with variances
- 6 Reviewing the Control System
- periodic appraisal (annual?): CSA
 - forming the opinion: still appropriate and robust given original design, day-to-day operation and change?
- 7 Re-designing Control
- revision or redesign where necessary
- 8 Demonstrating Control
- controls assurance
 - being accountable for control, control review, control effectiveness and ultimate performance
 - documentation/evidence of effective control and review
 - management representations, disclosures and reports
 - independent reviews of control and validation of statements
 - external reporting and other requirements
 - external audit, validation and inspection
 - reactions.

