

# A ROADMAP TO CONTROL



**A Comprehensive Approach to  
Managing Your Compliance Initiative**

An Onspring E-Book

# INTRODUCTION

In the preparation for a new journey, it's best to establish a plan for reaching the intended destination, regardless of the nature of the venture or the final outcome you are looking to achieve. This same concept holds true when looking to establish a comprehensive and effective compliance program. In these situations, it is best to break your approach down into simple, manageable parts that can help make a seemingly monumental effort simpler to address.

In an attempt to set our journey off in the right direction, let's first define what the intended outcome is and use that information to help map out the plan. In the context of a compliance program, this involves understanding what controls are and the context in which they exist, and will serve as the foundation for a structured and meaningful compliance program. It is not an easy process, but focusing on fundamental concepts aids in establishing a solid foundation for success.

This e-book will help you map a course to a comprehensive compliance program, moving from an overarching concept to a manageable system of controls by addressing the following topics:

1. Examining the fundamental definition of controls.
2. Defining the key benefits of establishing a Control Library.
3. Outlining the organizational elements impacted by the control environment.
4. Exploring considerations for control testing.

By bringing these concepts together and exploring some of the compelling reports and analysis tools, you can capture information in a structured manner. Moving from concept to control catalog, and abstract needs to actionable processes, this e-book will examine the fundamental elements required for a navigable compliance program.



# CONTROLS

If your main destination is achieving and demonstrating compliance, controls are the guiding posts that will set you on the correct path. Conversely, trying to demonstrate compliance without a structured and documented system of controls will all but guarantee you won't reach your destination. Let's start by narrowing things down to their simplest level—by clearly defining what a control is. To do that, let's consult perhaps the most widely accepted authority on controls: COSO.

## THE COSO MODEL

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission (COSO - [www.coso.org](http://www.coso.org)) developed a model for assessing and appraising internal controls. This model has been adopted as the accepted framework for internal controls and is recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

### Basic Definition of a Control

A control is a **process** effected by **leadership** designed to accomplish an **objective**.



As straight forward as the definition is, let's break down its three most essential pieces:

**Process.** An action or activity that is performed by a person or system.

**Leadership.** The individuals who have been assigned the responsibility of directing actions that help the organization accomplish its goals.

**Objective.** The driving purpose and/or desired outcome of the activities that the organization performs.

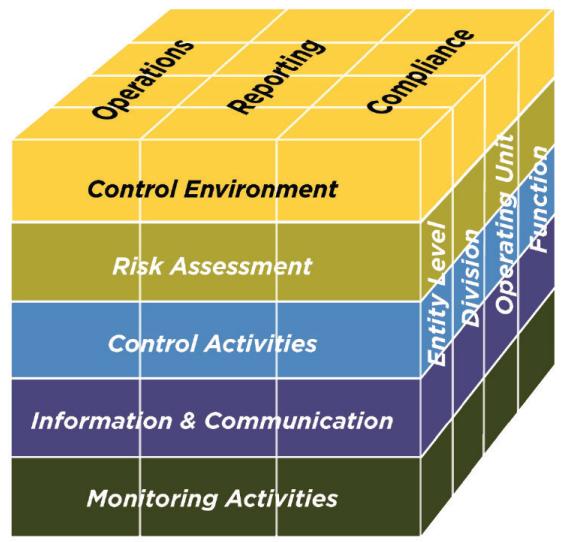
## THE COSO COMPONENTS

COSO has three different, connected elements of control. The image to the right illustrates the key components of COSO's model as, "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories (top of cube):

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations" ([www.coso.org](http://www.coso.org))

In an effective internal control system, the five components (the front of the cube) work together to support the achievement of an entity's mission, strategies and related business objectives.

Leveraging these components will help organizations identify controls that are



Cube by COSO, copyright © 1992-2019.

mission-critical, and also help drive the nature and extent of their evaluations.

### The Control Environment: The Tone at the Top

Controls within the Control Environment component set the tone of the organization and serve as the foundation for all other controls. While these controls may be a bit more intangible and difficult to

measure, they are essential to establishing an effective system of internal controls.

Examples of activities supporting the entity's Control Environment include:

- **Moral makeup of the organization.** Includes the integrity, ethical values, morale and competence of the entity's employees. These controls clearly establish the expectations for employees regarding their role in maintaining organizational integrity.
- **Style of management.** Is it collaborative? Are employees encouraged to speak up when they see issues? Ensure that employees are empowered and enabled to raise concerns when they arise.
- **Organizational structure.** Sets up clear assignments of authority, duty and responsibility. Does everyone understand their roles? Are critical responsibilities assigned?

- **Organization's industry or business environment.** The nature of your industry will likely drive which types of controls you will be required to implement to comply with specific regulations. For example, the financial industry may have specific control requirements tied to their activity processes.

### Risk Assessment: Setting Clear Goals

This control type deals with the organization's ability to set clear operating goals and objectives, the identification of risks that could impede achievement of those objectives and to manage exposure to those risks to acceptable levels. This is commonly addressed as part of an Enterprise Risk Management program or something similar. It needs to be dynamic and ongoing in nature, and should never be a one-and-done type of activity.

### Control Activities: Carrying Out Directives

These are day-by-day policies and procedures that have been put in place to ensure that management's directives are carried out. These are the processes and procedures we likely think of when we hear someone talk about "internal controls."

### Information & Communication: Getting the Word Out

This component is concerned with the way information is communicated throughout an organization. Does everyone receive the



same message? You want to be sure everyone receives information when needed and in a format that can be effectively consumed and responded to by the appropriate parties.

### Monitoring Activities: Trust, Then Verify

Setting up an independent monitoring system for your controls will help determine if the controls are responding quickly and operating as intended. This is typically accomplished on an ongoing basis as part of a review activity or as a part of periodic independent reviews, which are usually performed by auditors, peer reviewers or through self-assessments.

## THE STATUS QUO

The ability to define and visualize the relationships between processes, risks and controls is crucial for understanding their overall impact on one another, as well as the organization as a whole. For many organizations, it's no surprise that the usual documentation method used—the Process-Risk-Control Matrix (RCM)—is spreadsheets.

Spreadsheet programs can be tremendously flexible, manageable and valuable tools, and are often used for control libraries because they provide instant structure and ease of capturing data. However, when it comes to managing the critical aspects of your internal controls, there are some definitive concerns that you may encounter using a spreadsheet program:

- The most concerning aspect of the RCM approach is the “one-and-done”



nature of the analysis. In producing a stand-alone spreadsheet file as support for your most critical analytical procedures, the results of your work rarely last beyond the conclusion of that engagement. This makes it very difficult for a working group to identify key trends, monitor the impact of

changes and detect pervasive issues, which is an essential part of the assurance function.

- When issues or gaps are identified, it is common to populate and manage them in a separate file or other database. This detracts from properly managing the status of issues in the context of the original analysis.
- Storing critical information in a single spreadsheet makes it difficult for multiple individuals to access and interact with the data, creating accessibility and quality issues.
- While building the initial RCM may be simple and intuitive, making updates and modifications can prove to be difficult. For example, in situations where there are merged cells, inserting new risks or controls, or reordering them often creates more work than necessary.

# THE CONTROL LIBRARY

The best tools for a control library provide users with a dynamic user interface that sits on top of a relational database. Simplistic to some, this concept may be more advanced to others.

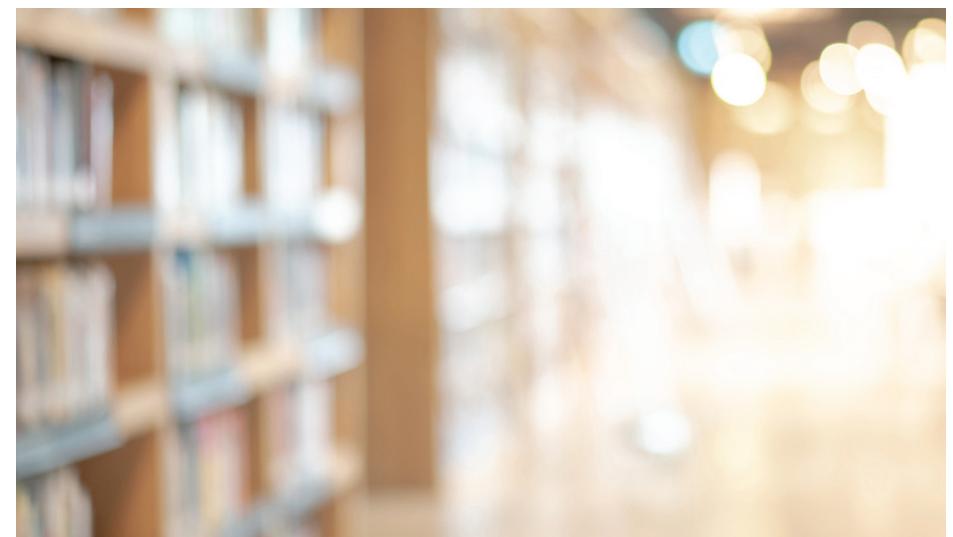
It is important to remember that the key point is not “use this system vs that system”—it’s about defining and using a tool that allows you to work the way you want to work while also ensuring that you can properly control and manage data integrity. When correctly structured, a working library allows you to perform ongoing monitoring and validation.

These are a few of the key data points that you may want to capture as you put together a system of internal controls and compile a library:

- **Unique ID.** Differentiates controls from one another to ensure that every control is individually cataloged and accounted for.
- **Title and Description.** Provides clear and concise descriptions of the controls, giving casual users enough information to understand each control’s concept. This could

also include categorizations and/or other data tags used to further classify the control for evaluation and reporting purposes.

- **Purpose.** Why does a particular control exist? What goal does it accomplish? The COSO components outlined in the control definition can be used to determine these important data points.
- **Testing Approach.** Explicitly defines the criteria against which a control is evaluated enabling a more consistent and reliable validation process.





- **Assessment.** Defines the method(s) that must be employed to validate that the control is operating as intended.
- **Ownership.** Who owns the control? Who will execute it? Establishing accountability within your system of internal controls is a critical when enabling proper execution and validation of those controls.
- **Other Key Attributes.** Is the control automated or manual? How frequently is the control performed? Includes items that drive reporting needs and enable proper evaluation of the control given its nature.

When considering which data elements need to be captured, using a relational database enables multiple sides of the same relationship to be examined. Knowing which elements are most essential is important.

## BENEFITS OF A CONTROL LIBRARY

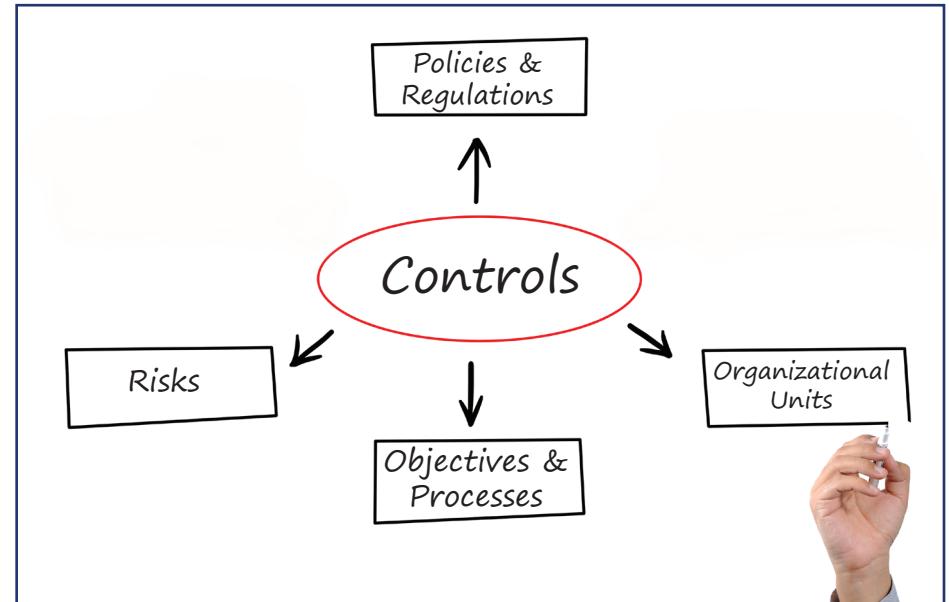
There are many benefits to leveraging a central repository for documenting and managing your system of internal controls:

- **Structure.** Capturing each critical control in the context of your organization makes it possible to know which elements of your organization impact the control and vice versa.
- **Consistency.** Keeping the data in the same format makes it more predictable and easier to respond to and analyze.
- **Data Integrity.** Making sure you always have the most recent version of the control data for reporting and work flow accuracy.
- **Perspective.** Creating a multi-dimensional overview provides better insight into your compliance program from a variety of angles.

# STRONG, WORKING RELATIONSHIPS

Controls cannot exist in a vacuum, especially since they are in place to accomplish specific objectives. It is important to understand and know the context in which they exist. Leveraging a relational database allows you to define different aspects of your organization and evaluate them within the overall context of your compliance program. The following are examples of the organizational elements that you will want to define and understand in the context of your compliance program:

- **Policies and Regulations.** The specific internal and external requirements that the control is affecting.
- **Organizational Information.** These are the elements of the organization that the control supports. Enables evaluation of how the different areas in a company are performing from a compliance standpoint.
- **Objectives and Processes.** The critical business goals and functions that a control helps achieve.



- **Risks.** The threat or opportunity to which the control is responding. Understanding the status of the control is critical when determining whether the risk is appropriately addressed.

These are just a few examples of the key interrelationships you may want to define and establish—the benefit is the ability to report your organization's compliance posture in the context of all impacted elements.

# TESTING CONSIDERATIONS

Once your controls have been defined and documented, you will need to establish a program and methodology for periodically evaluating whether they are properly designed and operating as intended. Follow set standards within your testing evaluation process to determine which items are the most critical in the context of your goals.

Many factors will drive how often and to what extent you perform testing, including the overall objectives of the control, how frequently it occurs and the design and context in which the control exists. A consistent and structured testing approach allows you to place proper reliance on the control performance. Here are some things to consider:

**Design Evaluations.** Before launching into the actual testing of a control's performance, first evaluate whether the control has been appropriately designed to achieve its objectives. If the control is ineffectively designed, this issue should be addressed before proceeding with any tests of operating effectiveness.

**Operating Effectiveness.** Understand how the performance of

the control demonstrates that the stated objective has been achieved. Determine what constitutes an appropriate level of evidence that the control has been effectively executed.

**Issue Identification.** Gives you the ability to easily identify any controls with open or outstanding issues, as well as report issues in the context of the impacted organizational elements. This is a natural byproduct of the testing processes and further strengthens the argument for capturing and managing the control library in a structured relational database.

**Follow Up and Monitor.** Stay on top of your controls. The level of scrutiny of an external regulatory examination may be far different from that of an internal review. Identify potential gaps in the controls, assign responsibility and monitor the finding—be sure to validate any actions taken. In the end, do as much verification as the control allows.



# GAIN CONTROL OF YOUR COMPLIANCE

## THE END IS JUST THE BEGINNING

Good planning always takes time—putting successful and strategic controls in place is no easy task, but when executed properly, target goals will be met. When mapping out a destination to your compliance objectives, narrow your process down to the simplest levels and goals. Use each step as a building block for your program, noting and detailing the hits and misses. Maintain a clear understanding of why the controls will be used in the first place and keep it at the top of your list.

Once the end goals are in place, review the controls and make determinations on whether or not they're working. Establish that they can achieve your plan, making sure these steps are followed:

- Understand the “what and why” of your program
- Stock your control library properly

- Set up key interrelationships
- Trust, then verify through testing

Keep the end objective at the forefront of all activities related to your plan, making sure your goals are clear and targeted—stay on track with your roadmap. A well-structure plan will lead you to compliance success.

Onspring can help build and map your control library, perform testing, manage issues and report in real time. We'll give you a guided tour of our capabilities for process automation, work flow, analysis and reporting.



**Schedule a Demo Today**

<https://www.onspring.com/demo/>

**Onspring**  
8500 W. 110th St. Suite 220  
Overland Park, KS 66210  
913.601.4900

For more information, contact [info@onspring.com](mailto:info@onspring.com)

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