Practice Advisory 2130-1:  
Assessing the Adequacy of Control Processes

Primary Related Standard
2130 – Control
The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

1. An organization establishes and maintains effective risk management and control processes. The purpose of control processes is to support the organization in the management of risks and the achievement of its established and communicated objectives. The control processes are expected to ensure, among other things, that:

- Financial and operational information is reliable and possesses integrity,
- Operations are performed efficiently and achieve established objectives,
- Assets are safeguarded, and
- Actions and decisions of the organization are in compliance with laws, regulations, and contracts.

2. Senior management’s role is to oversee the establishment, administration, and assessment of the system of risk management and control processes. Among the responsibilities of the organization’s line managers is the assessment of the control processes in their respective areas. Internal auditors provide varying degrees of assurance about the effectiveness of the risk management and control processes in select activities and functions of the organization.

3. The chief audit executive (CAE) forms an overall opinion about the adequacy and effectiveness of the control processes. The expression of such an opinion by the CAE will be based on sufficient audit evidence obtained through the completion of audits and, where appropriate, reliance on the work of other assurance providers. The CAE communicates the opinion to senior management and the board.

4. The CAE develops a proposed internal audit plan to obtain sufficient evidence to evaluate the effectiveness of the control processes. The plan includes audit engagements and/or other procedures to obtain sufficient, appropriate audit evidence about all major operating units and business functions to be assessed, as well as a review of the major control processes operating across the organization. The plan should be flexible so that adjustments may be made during the year as a result of changes in management strategies, external conditions, major risk areas, or revised expectations about achieving the organization’s objectives.

5. The audit plan gives special consideration to those operations most affected by recent or unexpected changes. Changes in circumstances can result, for example, from marketplace or investment conditions, acquisitions and divestitures, organizational restructuring, new systems, and new ventures.
6. In determining the expected audit coverage for the proposed audit plan, the CAE considers relevant work performed by others who provide assurances to senior management (e.g., reliance by the CAE on the work of corporate compliance officers). The CAE’s audit plan also considers audit work completed by the external auditor and management’s own assessments of its risk management process, controls, and quality improvement processes.

7. The CAE should evaluate the breadth of coverage of the proposed audit plan to determine whether the scope is sufficient to enable the expression of an opinion about the organization’s risk management and control processes. The CAE should inform senior management and the board of any gaps in audit coverage that would prevent the expression of an opinion on all aspects of these processes.

8. A key challenge for the internal audit activity is to evaluate the effectiveness of the organization’s control processes based on the aggregation of many individual assessments. Those assessments are largely gained from internal audit engagements, reviews of management’s self-assessments, and other assurance providers’ work. As the engagements progress, internal auditors communicate, on a timely basis, the findings to the appropriate levels of management so prompt action can be taken to correct or mitigate the consequences of discovered control discrepancies or weaknesses.

9. In evaluating the overall effectiveness of the organization’s control processes, the CAE considers whether:
   - Significant discrepancies or weaknesses were discovered,
   - Corrections or improvements were made after the discoveries, and
   - The discoveries and their potential consequences lead to a conclusion that a pervasive condition exists resulting in an unacceptable level of risk.

10. The existence of a significant discrepancy or weakness does not necessarily lead to the judgment that it is pervasive and poses an unacceptable risk. The internal auditor considers the nature and extent of risk exposure, as well as the level of potential consequences in determining whether the effectiveness of the control processes are jeopardized and unacceptable risks exist.

11. The CAE’s report on the organization’s control processes is normally presented once a year to senior management and the board. The report states the critical role played by the control processes in the achievement of the organization’s objectives. The report also describes the nature and extent of the work performed by the internal audit activity and the nature and extent of reliance on other assurance providers in formulating the opinion.

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