Internal Control over Financial Reporting

Angela Simatupang CIA, CRMA, CRISC
Global Board of Directors RSM International and
Member of the International Internal Audit Standards Board (IIASB)

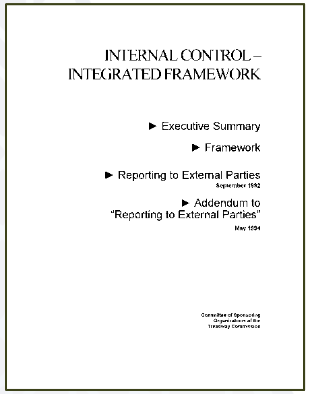
2019 NATIONAL CONFERENCE

IIA Indonesia
2019 NATIONAL CONFERENCE
Solo, 24 - 25 July 2019

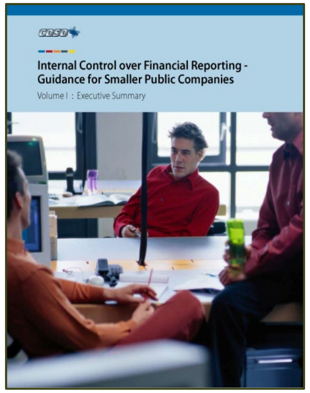
EMPOWERING INTERNAL AUDITORS : EMBRACING THE 4IR

Internal Control over Financial Reporting

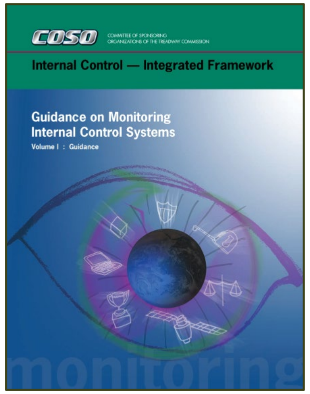
COSO Overview – Internal Control Publications



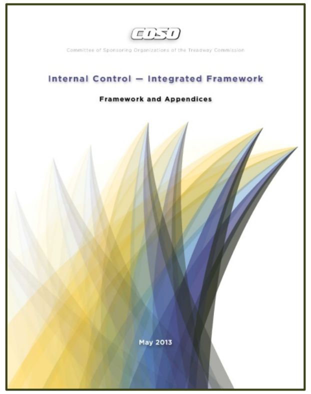
1992



2006



2009



2013

Environments changes…

Expectations for governance oversight
Globalization of markets and operations
Changes and greater complexity in business
Demands & complexities in laws, rules, regulations, standards
Expectations for competencies and accountabilities
Use of, and reliance on, evolving technologies
Expectations relating to preventing and detecting fraud

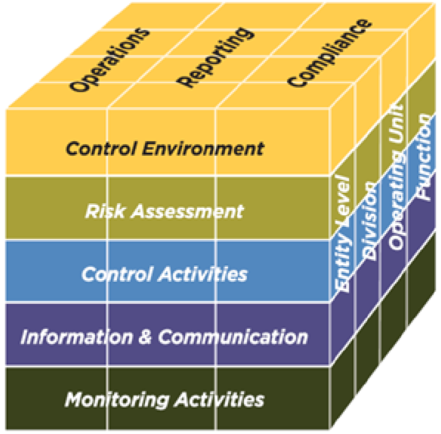
…have driven Framework updates with intended benefit of

Improve governance	Expand use beyond financial reporting	Improve quality of risk assessment
Strengthen anti-fraud efforts	Adapt controls to changing business needs	Greater applicability for various business models

Changes requires an organization to evaluate the implications on its system of internal control over external financial reporting and to design and implement appropriate responses so that the system of internal control adapts and remains effective over time.

Internal Control over Financial Reporting

COSO Internal Control 2013



Control Environment Points of Focus: 20	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment Points of Focus: 27	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities Points of Focus: 16	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & Communication Points of Focus: 14	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities Points of Focus: 10	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Internal Control over Financial Reporting

Internal control is a process effected by an entities board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”

Operations

Pertain to the effectiveness and efficiency of the entity’s operations, including operational and financial performance goals and safeguarding of assets against loss.

Reporting

Pertain to internal and external financial and non financial reporting. Encompasses reliability, timeliness, transparency and other characteristics defined by regulators, standard setters or the entity’s policy.

Compliance

Pertain to the adherence to laws and regulations to which the entity is subject.

ICOFR is one element of the broader concept of internal control.

Internal Control over Financial Reporting

Internal control includes all of the processes and procedures that management puts in place to help make sure that its assets are protected and that company activities are conducted in accordance with the organization's policies and procedures.

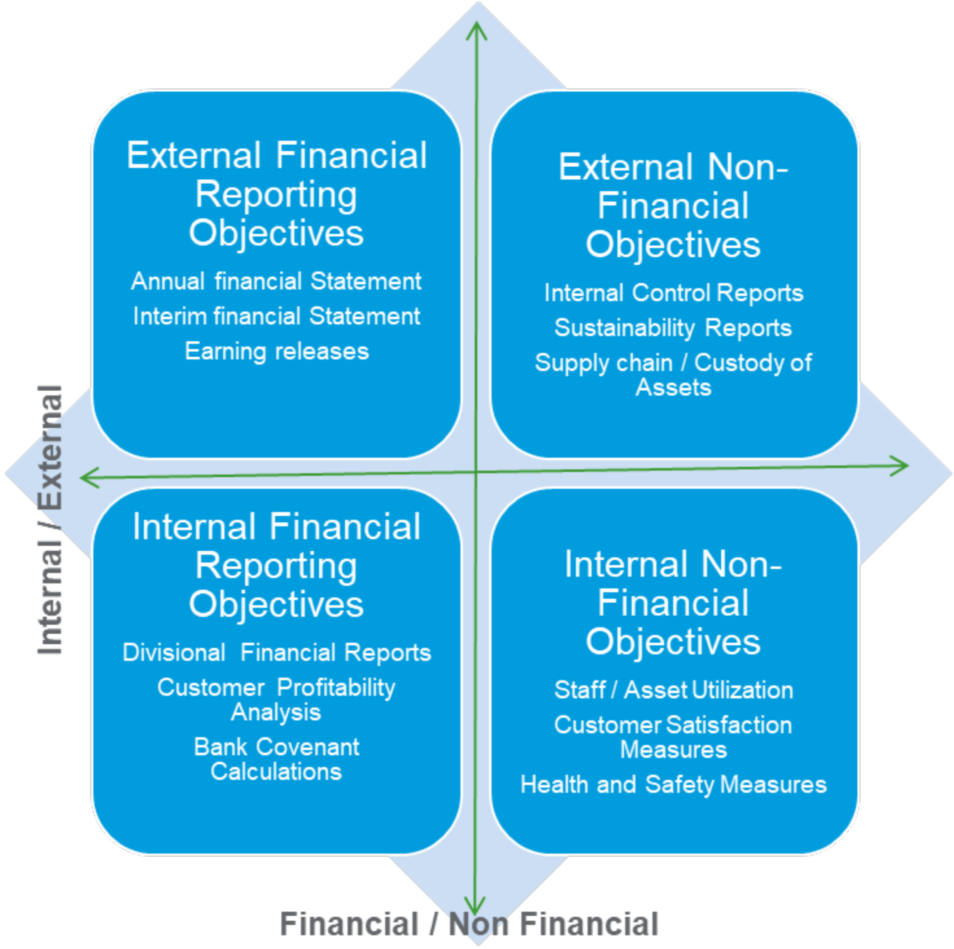
Internal Control over Financial Reporting (ICOFR) describes the process used by companies to enhance the reliability of their financial statements by reducing the risk of material errors or misstatements.

Address the preparation of financial reports, including financial statements for external purposes and other external financial reporting derived from an entity's financial and accounting books and records.

Operations

Reporting

Compliance



Internal Control over Financial Reporting

Suitable objectives of FS for external purposes

Complies with Applicable Accounting Standards

Regulators and accounting standard-setters establish laws, rules, and standards relating to the preparation of financial statements for external purposes. These financial reporting rules and standards form the basis upon which management specifies suitable objectives for the entity and its subunits.

Considers Materiality

Financial statement materiality sets the threshold for determining whether a financial amount is relevant. Entities must consider suitable regulations and guidance promulgated by standard-setters and regulators.

Reflect Entity Activities

External financial reporting must reflects the entity's transactions and events. preparing external financial statements, management implicitly or explicitly considers suitable objectives relating to qualitative characteristics (e.g. reliability, transparency) and assertions (existence or occurrence; completeness; rights & obligations; valuation or allocation; presentation & disclosure - of transactions).

Internal Control over Financial Reporting

Risk to Achieving Suitable Objectives

Risk of Material Omission or Misstatements	Risk of Material Omission or Misstatement Due to Fraud	Management Override	Risk of Material Omission or Misstatement Due to Illegal Acts & Corruption
FS are not considered reliable or fairly presented if material omissions or misstatements exist in one or more of the amounts or disclosures. Identify risks that could individually or in combination, result in material omission or misstatements of FS. Risk of not preventing or detecting omission or misstatements in a timely manner.	Fraudulent reporting can occur when an entity's reports are wilfully prepared with material omissions of misstatements. Potential areas for fraud include: (1) Fraudulent external financial reporting: intentional act design to deceive users; (2) Misappropriation of assets: theft of assets.	Actions by management in an attempt to override controls for an illegitimate purpose (i.e. personal gain, enhance presentation or disclosure of financial condition or results of operation). Management override ≠ management intervention: action that departs from controls designed for legitimate purpose – usually in non-recurring and non-standard transactions.	Violations of laws or governmental regulations that could have a material direct or indirect impact on external financial report . Corruption is generally relevant to the compliance category objective but could influence the control environment that affects external financial reporting objective.

Risk Response

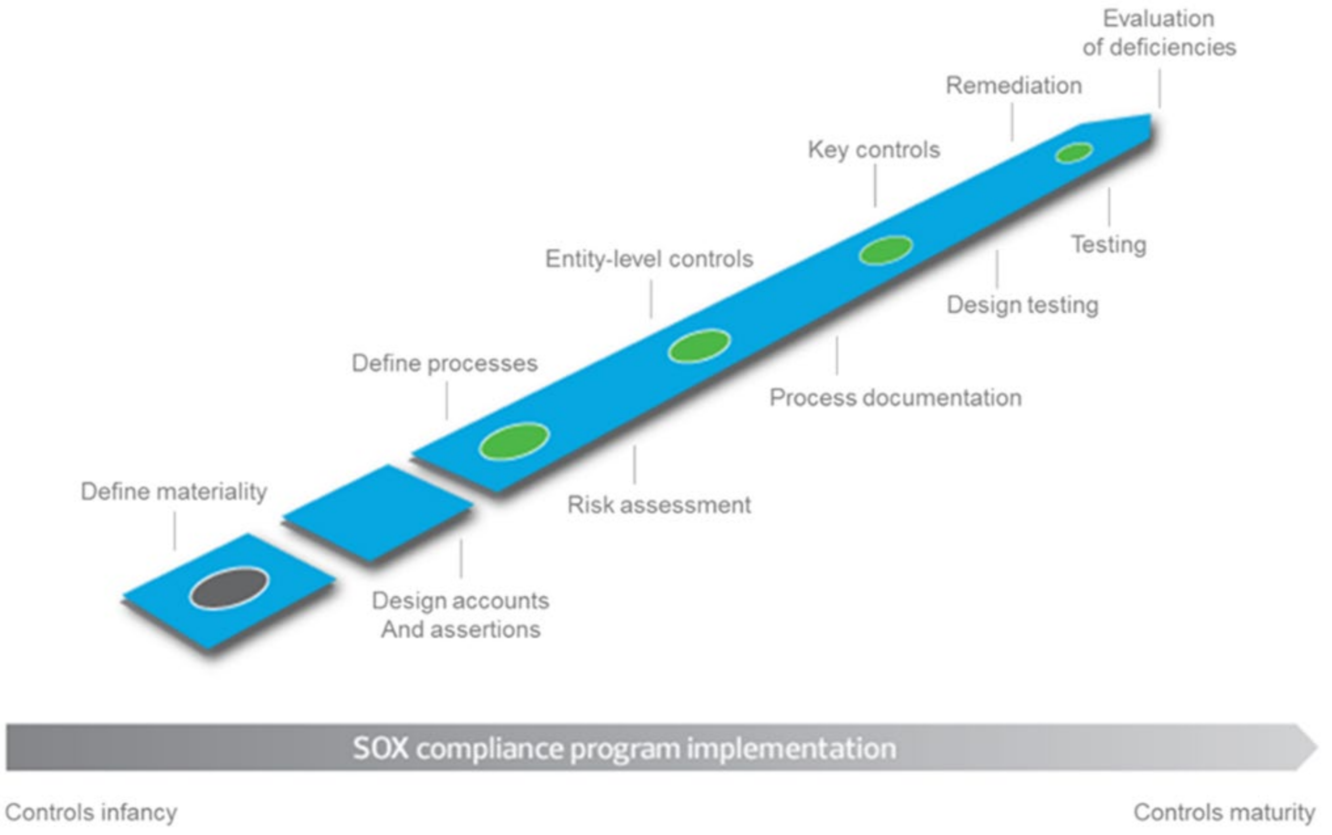
- Management should considers how risks of material omission and misstatement should be managed.
- Management select, develops, and deploys controls to effect principles within each component to respond to assessed risks.
- Judgement is necessary in developing appropriate responses to risks of material omissions or misstatements.
- Management responses and actions depend on its assessed risks of material omission and misstatement, perceptions of benefits and cost of effective controls, and other circumstances that are unique to the entity (e.g. management operating model, use of technology, competency of management and other personnel).

Documentation Required

Where management asserts to regulators, shareholders, or other third parties on the design and operating effectiveness of its overall system of internal control, management has a higher degree of responsibility.	*Sufficient evidence that the components of internal control are present and operating together is available and suitable to satisfy the entity's objectives – which support the assertion that all components of internal control are in place and functioning. The nature and extent of the documentation may be influenced by the entity's regulatory requirements.*
Where an external auditor attests to the effectiveness of the overall system of internal control, management will likely be expected to provide the auditor with support for its assertion on the effectiveness of internal control.	*Evidence that the system of internal control is properly designed and operating effectively. The documentation to support the assertion will likely be used by the external auditor as part of his or her audit evidence. Management may also document significant judgments, how such decisions were considered, and the final decisions reached.*

Internal Control over Financial Reporting

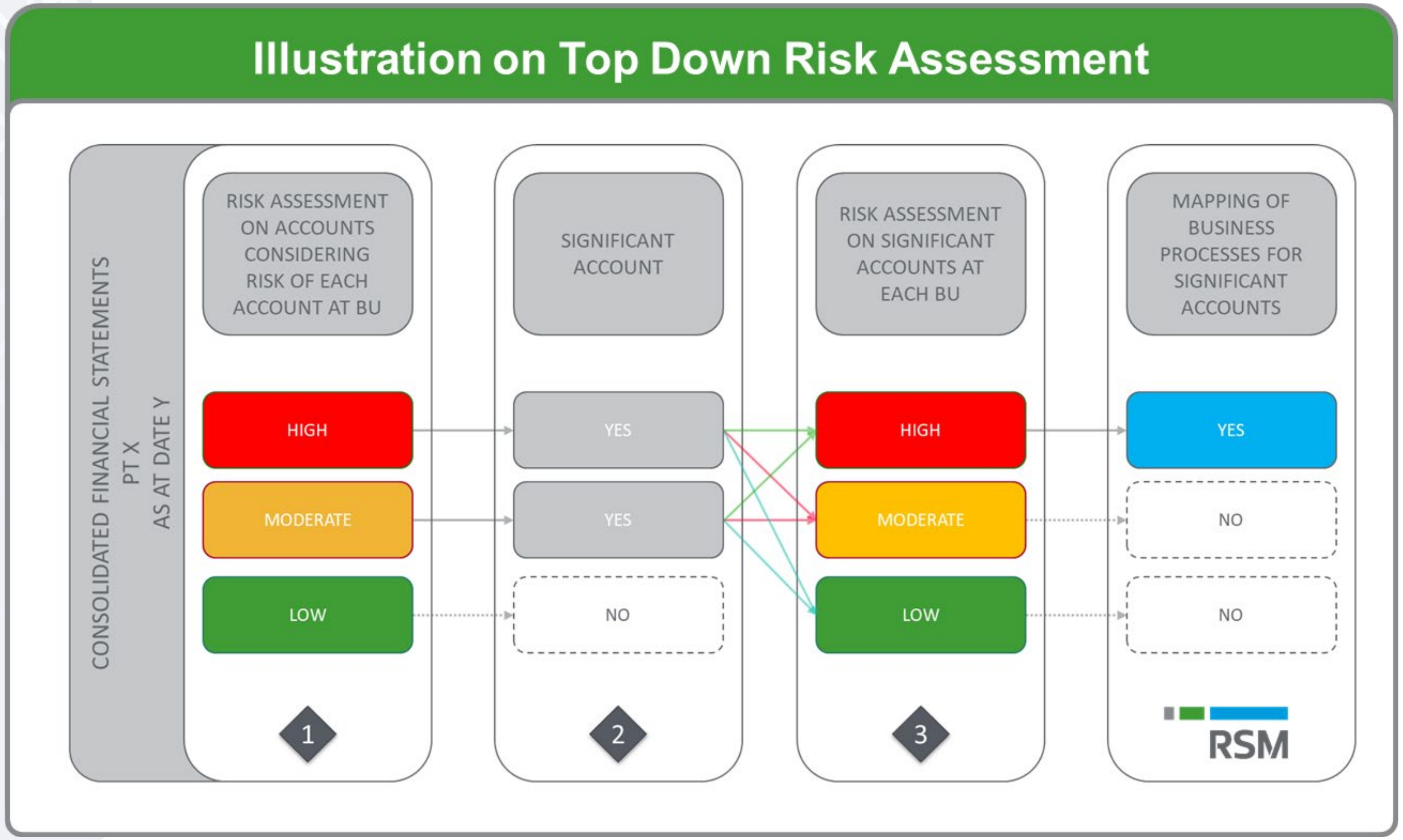
How to prepare this?



RSM SOX compliance program implementation

RSM

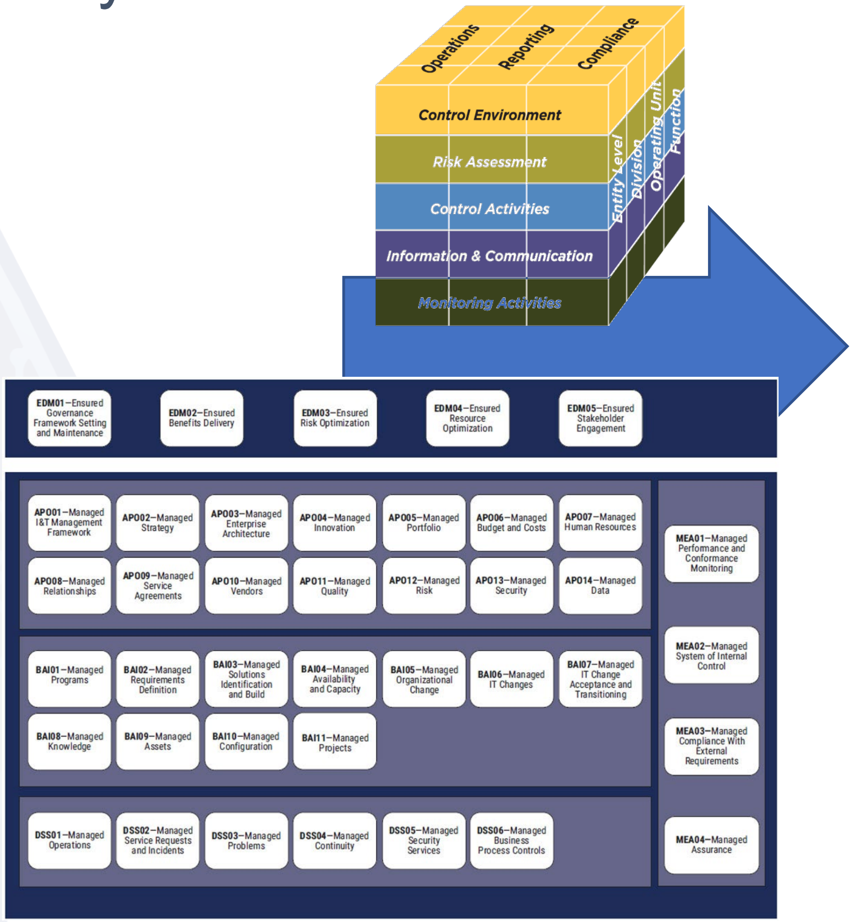
Prioritizing on what is the most important



Size and composition of the account	Susceptibility to misstatement due to errors or fraud	Volume of activity, complexity, and homogeneity of the individual transactions processed through the account or reflected in the disclosure
Nature of the account or disclosure	Accounting and reporting complexities associated with the account or disclosure	Exposure to losses in the account
Possibility of significant contingent liabilities arising from the activities reflected in the account or disclosure	Existence of related party transactions in the account	Changes from the prior period in account or disclosure characteristics

Internal Control over Financial Reporting

Risk Analysis



Risk Analysis: Likely Source of Misstatement

- Understand the flow of transactions related to the relevant assertions, including how these transactions are initiated, authorized, processed, and recorded;
- Identified the points within the company's processes at which a misstatement—including a misstatement due to fraud—could arise that, individually or in combination with other misstatements, would be material;
- Identify the controls that management has implemented to address these potential misstatements; and
- Identify the controls that management has implemented over the prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could result in a material misstatement of the financial statements.

Internal Control over Financial Reporting

Journey to Integrity in Financial Reporting

Up To Date Process Map & RCM

Mapping key controls for all key processes within significant accounts and locations using recognized internal control frameworks

Testing & Continuous Improvement

Effectiveness of controls design and operation need to be evaluated periodically on a continuous basis (including remediation follow up)

Management Affirmation

Responsibility of management to implement internal controls and to state the effectiveness of internal controls (POJK No.75 /POJK.04/2017; UUPT art 69, UU No.19/2003 re BUMN art 5 & 26; PerMen BUMN No.PER-01/MBU/2011 re GCG art 28)

3rd Line of Defense Assurance

Internal audit opinion on the effectiveness of internal control over financial reporting

External Assurance

Audit of internal control over financial reporting that is integrated with an audit of financial statements

Understand What Matters Most

Identification of significant account and relevant assertion including key business processes in key locations

RSM Indonesia, 2019

RSM

Internal Control over Financial Reporting

Benefit of Implementing Internal Control over Financial Reporting

Reputation

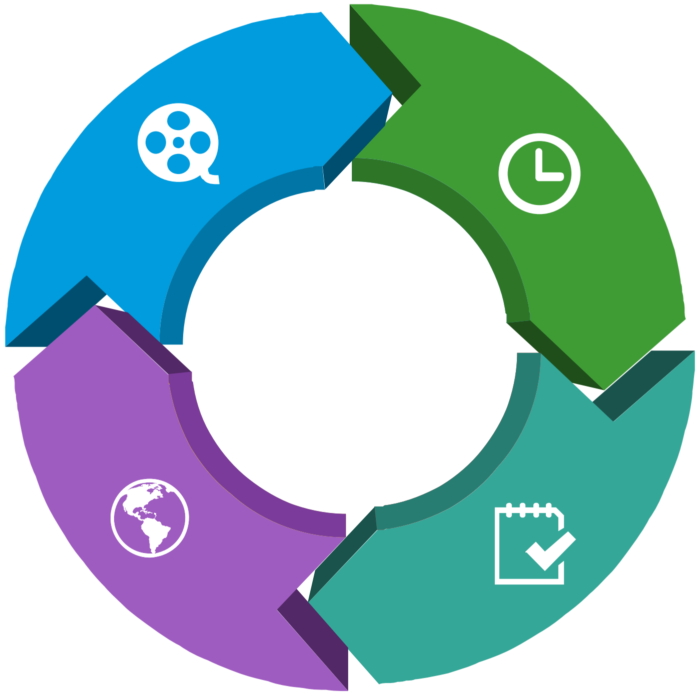
Reduce risk of financial reporting misstatement and penalty, increase public perception of BOD and BOC exercised accountability in managing and overseeing the company.

Ensuring that the company is at par with other global companies in practicing responsible & sustainable operations.

Efficiency

Focus only on key controls for risks that really matters to your company.

With greater focus, company's resources can be utilized more efficiently and reduces costs in the long-run, allowing people to spend attention on other strategic aspects.



Investor Confidence

Investor confidence & efficient operation of capital markets depend on reliable public company financial reporting.

Reliable financial reporting depends on an effective system of internal control over the process of preparing financial statements.

Good Governance

Facilitate the execution of BOD and BOC roles and responsibility in ensuring the availability of good & reliable system of internal control & risk management and preserving the value of the company.

RSM Indonesia analysis

RSM

Terimakasih
Thank you
Maturnuwun

angela.simatupang@rsm.id