

How Risk Management and Internal Controls Can Improve Performance

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Agenda

- Learning Objectives
- Background of the COSO Frameworks
- Contextual Ministry Model
- Governance and the Frameworks
- Strategy Setting, Planning, and the Frameworks
- Execution and the Frameworks
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- Adapting and the Frameworks
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How Risk Management and Internal Control Can Improve Performance

Key Objectives

- Apply the COSO Enterprise Risk Management and Internal Control Frameworks to identify well-designed risk management processes
- Apply those processes to improve organizational performance

Background COSO Frameworks

- COSO – The Committee of Sponsoring Organizations
- Organized in 1985 to sponsor the National Commission on Fraudulent Financial Reporting (“The Treadway Commission”)
- Five Organizations
 - American Accounting Association
 - AICPA
 - Financial Executives International
 - Institute of Internal Auditors
 - Institute of Management Accountants

Background COSO Frameworks

- COSO's goal – To provide thought leadership dealing with three interrelated subjects: enterprise risk management (ERM), internal control, and fraud deterrence
- Key Publications
 - Internal Control – Integrated Framework, 1992, updated 2013
 - Enterprise Risk Management – Integrated Framework, 2004, updated 2017

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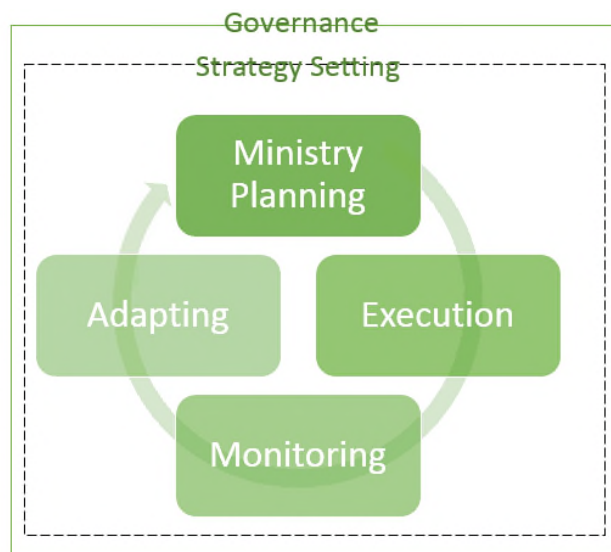
Definition of Enterprise Risk Management

“ERM is a **process**, effected by an entity's board of directors, management and other personnel, applied in **strategy setting** across the enterprise, designed to **identify potential events** that may affect the entity, and **manage risks** to be within its **risk appetite**, to provide **reasonable assurance** regarding the achievement of entity objectives.”

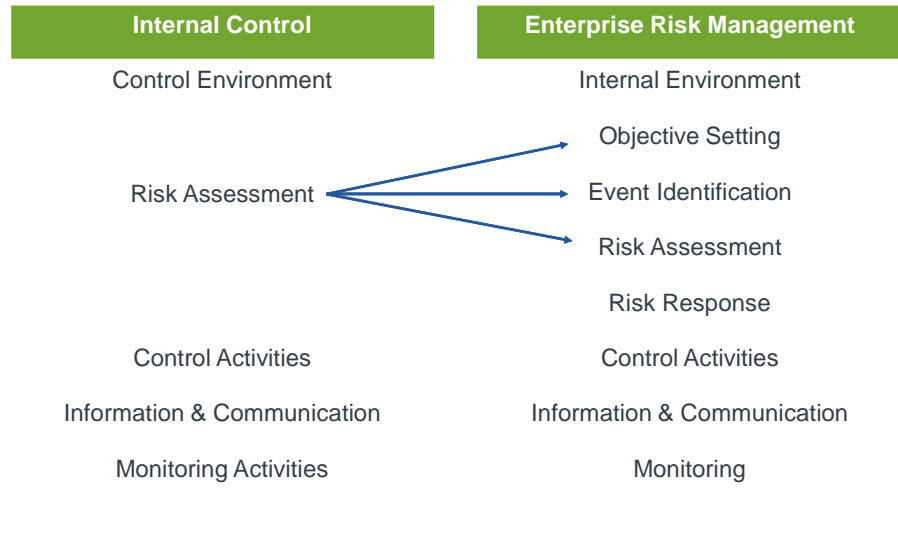
Definition of Internal Control

Internal control is a **process**, effected by an entity's board of directors, management, and other personnel, designed to provide **reasonable assurance** regarding the achievement of objectives related to **operations, reporting, and compliance**.

Contextual Ministry Model



Relationship of ERM and Internal Control



Governance and the Frameworks

- Both frameworks have a common purpose — to help the church achieve its objectives
- Board's role as boundary setters
- Balancing opportunities and risk
 - Risk Management Philosophy
 - Risk Appetite
 - Control Environment

Strategy Setting, Planning and the Frameworks

- Objective-setting
- Event Identification
- Risk Assessment
- Risk Response

Risk Appetite

- Existing Risk Profile
- Risk Capacity
- Risk Tolerance
- Attitudes Toward Risk

Execution and the Frameworks

- Control Activities
- Information and Communication

Monitoring and the Frameworks

- General conditions
- Emerging risks and changes to existing risks
- Ongoing assessment of the effectiveness of ERM and internal control
- Monitoring – ongoing activities or separate evaluations
- Timely communication and remediation of deficiencies

Adapting and the Frameworks

- Inevitably of disruptive change
- Impact of technology advances
 - Cybersecurity
- Societal, political, demographical changes
- Economic changes

Takeaways and Observations

- Both frameworks, properly applied, contribute to achieving the church's mission and achieving its strategic goals
- The frameworks affect how risks are managed, how the culture encourages appropriate behavior, and how well the church can react to change
- Both frameworks encompass the concept of reasonable assurance that objectives are met
- The ERM framework is more strategic, the internal control framework more tactical

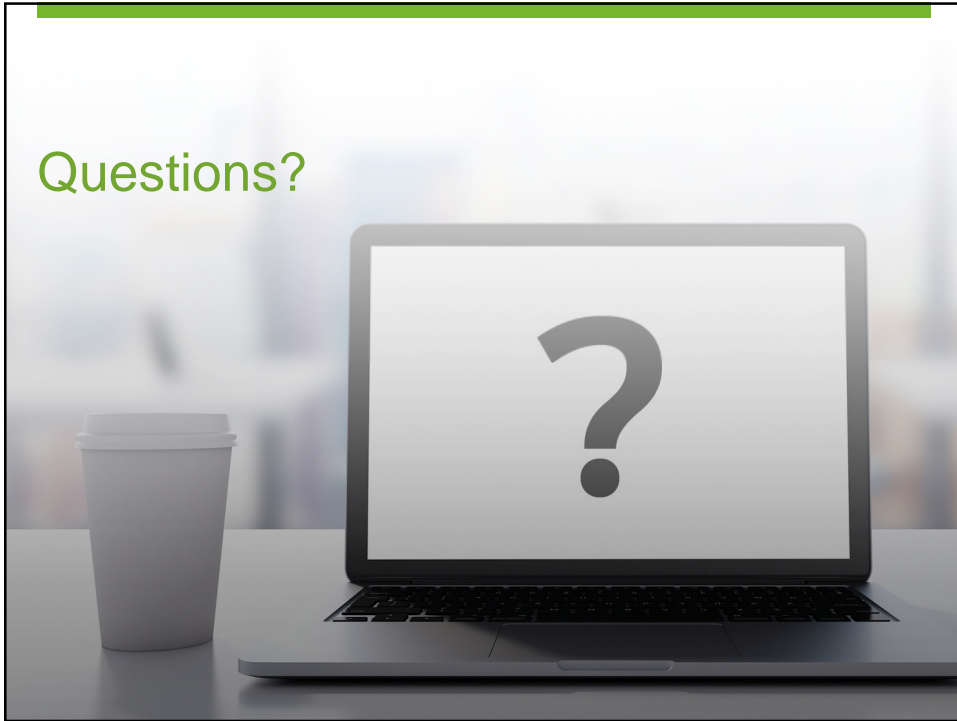
Takeaways and Observations

- The original internal control framework addressed achieving objectives in operations, compliance, and financial reporting
- The passage of Sarbanes-Oxley has shifted the focus almost exclusively to financial reporting
- To work effectively, ERM must be integrated with ongoing management processes
- Management of risk culture is important — consider the internal environment of the ERM framework, or the control environment of the internal control framework

Acknowledgment

Much of this material was drawn from the whitepaper *Improving Organizational Performance and Governance, How the COSO Frameworks Can Help*, by James DeLoach and Jeff Thomson.

Questions?



Thank you.

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