

Practical Issues in Addressing SOx 404 Requirements

Entity Level Controls

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Areas of Focus

1. What are entity level controls?
2. How can completeness of entity level controls be ensured?
3. How can entity level controls be effectively assessed?

Entity Level Controls

- Critical to the overall control environment
- Oversee and maintain a sound system of internal control
- Monitor operations and oversee the control environment and risk assessment process at the overall corporate level
- Have a pervasive impact on the risk of error or fraud at the process, transaction, or application level

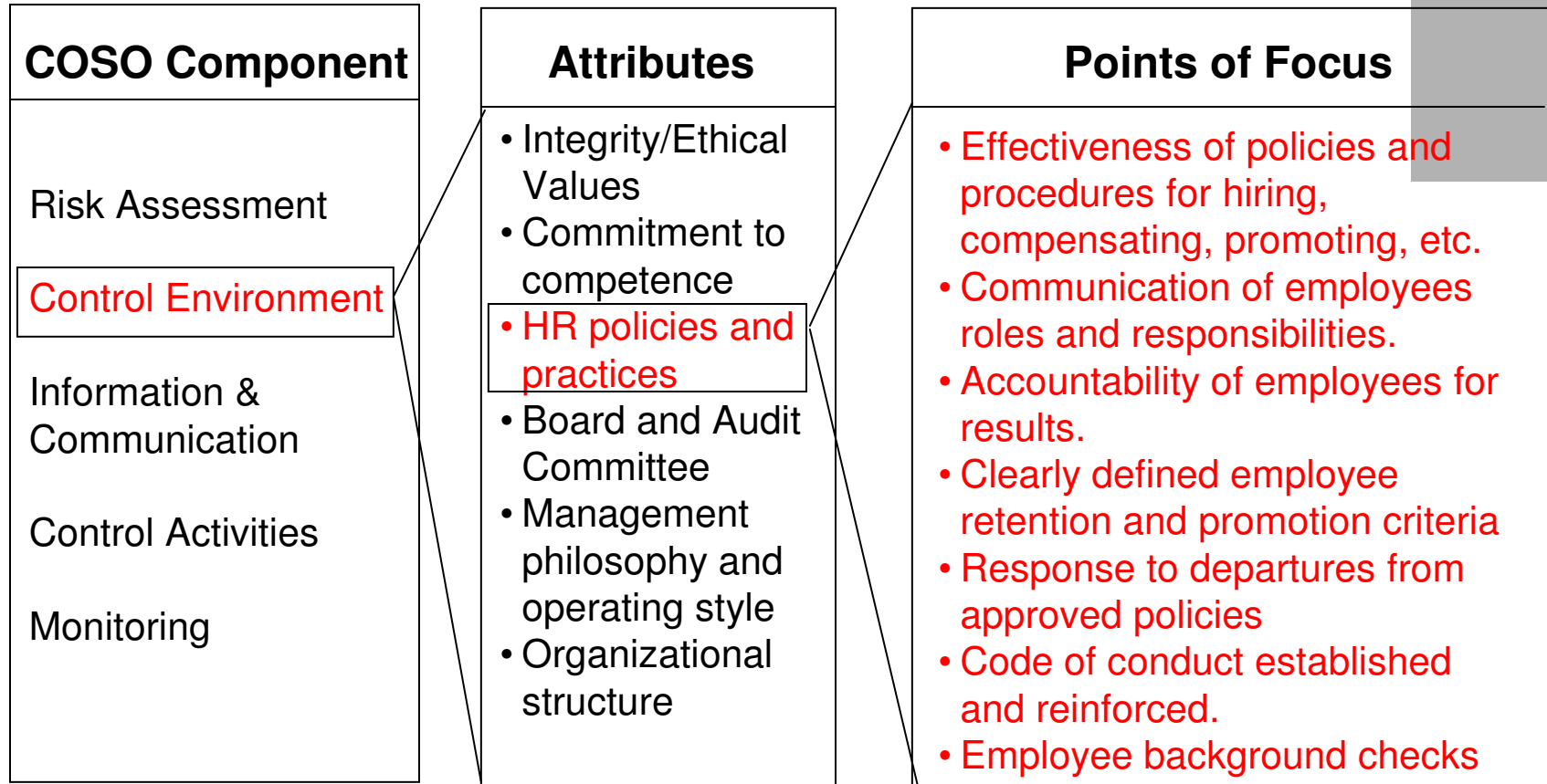
Use of COSO Control Framework

- Apply COSO framework at the entity level to ensure completeness of controls
- COSO framework includes the following components:
 - Control environment
 - Risk assessment
 - Information and communication
 - Control activities
 - Monitoring

Source: COSO Internal Controls – Integrated Framework

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COSO at the Entity Level



Source: COSO Internal Controls – Integrated Framework

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Testing Entity Level Controls

- Entity level controls should be tested in the following ways:
 - Assess entity level controls to ensure effective design
 - Validate entity level controls to ensure that effectively designed controls are functioning as intended

Points to Consider

- Entity level controls are critical to the overall control environment
- COSO control framework can be used to determine overall conclusion on control effectiveness :
 - Draw conclusion based on effectiveness of each attribute
 - Draw overall conclusion for each COSO component
 - “Ineffective” conclusion at attribute level does not mean ineffective conclusion at entity level - need to understand compensating controls

Points to Consider - Continued

- Both design effectiveness and appropriate functioning of control must be tested
- Conduct entity level control testing as early as possible:
 - fixes may be difficult/time consuming
 - strong controls could reduce testing requirements while poor controls may increase reliance on activity controls
 - external auditor may be less reliant on management testing in a weak entity level control environment