

# Stop the (Controls) Madness!

Discussion on maintaining a flexible system of internal controls in an ever changing environment

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ACE Group*



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**COMPLIANCE WEEK 2012**

## The ACE Group: Who We Are

- The world's sixth-largest multi-line property and casualty insurer, based on market capitalization of \$24.8 billion.
- A global company, with local operations in 53 countries.
- Insurance is our only business – commercial and personal P&C, personal accident, supplemental health, reinsurance and life.
- ACE Limited, the parent company of the ACE Group, is listed on the New York Stock Exchange (NYSE:ACE) and is a component of the S&P 500 index.
- Exceptional financial strength, managing risk conservatively in both underwriting and investing.
- Core operating insurance companies are rated “AA-” (very strong) for financial strength by S&P and “A+” (superior) by A.M. Best.

*\* As of March 31, 2012*

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## Control Repository Flexibility

- Model Audit Rule and Statutory Compliance
- Attestations

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## Over testing

- Multiple causes (internal and external)
- Continually reassess with focus on risk
- Small efficiencies add up

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## Integration of IT application controls

- Cultural and varies by business/process
- Benefits from reintegration
  - Reduction of automated application controls
  - Better appreciation of financial impact of control deficiencies

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***Bill Spoehr***

*Vice President – Financial Compliance  
Safeway Inc.*



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## Safeway Overview

- Operate 1,675 food and drug retail stores in 19 states and 4 Canadian provinces, supported by 17 distribution centers and 32 manufacturing plants
- 2011 Revenues of \$43.6 Billion (# 63 in *Fortune 500*)
- Offer grocery home delivery services online at Safeway.com
- Blackhawk Network, a subsidiary, provides gift and prepaid card products through online channels and a network of retailers in North America, Europe, and Australia
- Safeway is 49% owner of Casa Ley, operator of 185 food and general merchandise stores in western Mexico

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## Safeway' s Control & Compliance Environment

- Financial Compliance Office (FCO) reports to SVP-Finance & Control and has overall ICFR (SOX) compliance responsibility
  - 5 FTEs plan, test and report on approximately 500 ICFR
  - Annually test and “streamline” ICFR – 65% reduction in since 2004
- Highly centralized control environment
  - Corporate and retail support functions located in 3 primary locations
    - Corporate HQ and Blackhawk Network – Pleasanton, CA
    - USA retail accounting & IT Data Center – Phoenix, AZ
    - Canada HQ and retail accounting – Calgary, Alberta, Canada
  - Self-testing performed, with FCO review, in manufacturing and Canada retail
  - Internal Audit assists with Blackhawk Network and distribution center testing



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## Safeway's Top Control Challenges for 2012

- GAAP – New Pronouncements and Transactions
- Safeway Business Changes
- External Auditors

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## GAAP – New Pronouncements and Transactions

- Challenges:
  - New accounting and disclosure requirements
    - KPMG-sponsored study: financial statement footnote volume has increased 24% since 2004
  - New processes and key controls to address requirements
  - Corporate accounting: appropriate expertise and staff levels
- Solutions:
  - Coordinate with external auditors re: risk and methodology
  - Leverage technology in training, planning and documenting risks, testing and assessment of findings
  - Continuously review internal risks and related test approaches

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## Safeway Business Changes

- Challenges:

- Economic and competitive environment requires rapid business and organizational change
- New lines of business increase the relevant accounting pronouncements, disclosures, required processes and controls
- Corporate staff affected by transaction volume, staffing levels and required expertise

- Solutions:

- Internal networking with known stakeholders: stay informed
- Update risks and test approach as circumstances change

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## External Auditors

- Challenges:
  - Reconciling PCAOB audit standards and management's obligations for ICFR under SEC Rules 13(a) or 15(d)
  - PCAOB standards on risk assessment and response (AS12 & 13)
    - Recent changes to external auditor's methodology
    - Understanding auditor's risks, definitions, and test approaches
- Solutions:
  - Meet early & often with external auditors; understand their process, audit risks and concerns, and areas of reliance
  - Link analytical controls to specific ICFR to reduce control risk
  - Leverage GRC software applications for risk assessments

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### Questions that may help focus your ICFR testing:

- Do we understand our external auditor's current methodology?
- Do test procedures focus on the "process" or a "control activity"?
- What is the one control in the process you can't live without?
- Are existing ICFR relevant and precise enough to address current accounting and disclosure requirements?
- Do staff responsible for ICFR have the appropriate qualifications, experience and training to execute the control activity properly?
- Is the nature, timing and extent of testing updated based upon risk assessments that reflect current operations and market conditions?
- What information supports the control activity? What is the source of that information and is that source reliable and tested?

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*Bruce Beck*

*Director*

*Infor Global Solutions*

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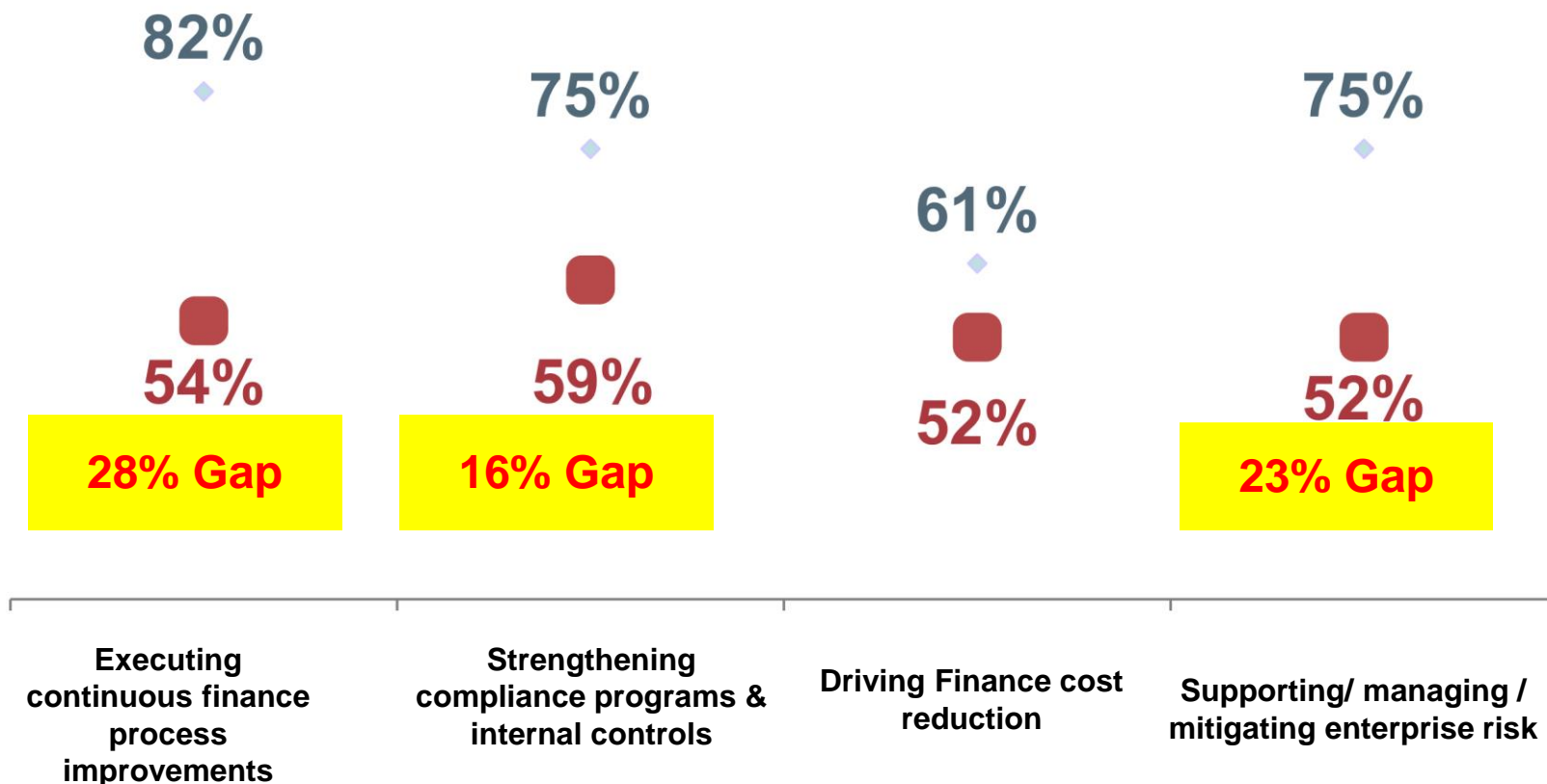
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### **Aberdeen's September 2011 GRC survey findings:**

- Customers and partners will always choose a business partner with lower liabilities
- Being aggressive in building a business demands risk taking; knowing your risks improves confidence
- Compliance is crucial to breaking new ground, regionally or globally

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CFOs Say a Significant Gap Remains Between the Effectiveness & Importance of Internal Controls



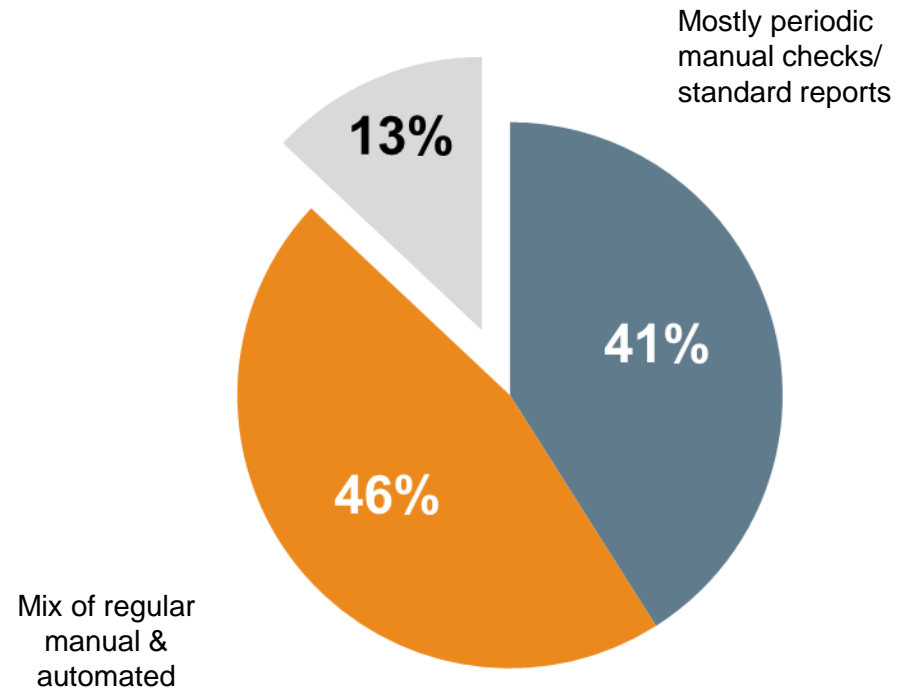


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## Control activities are still primarily manual

What methods do you use to provide management assurance of your controls? <sup>1</sup>

**87%** of organizations still rely primarily on manual control testing

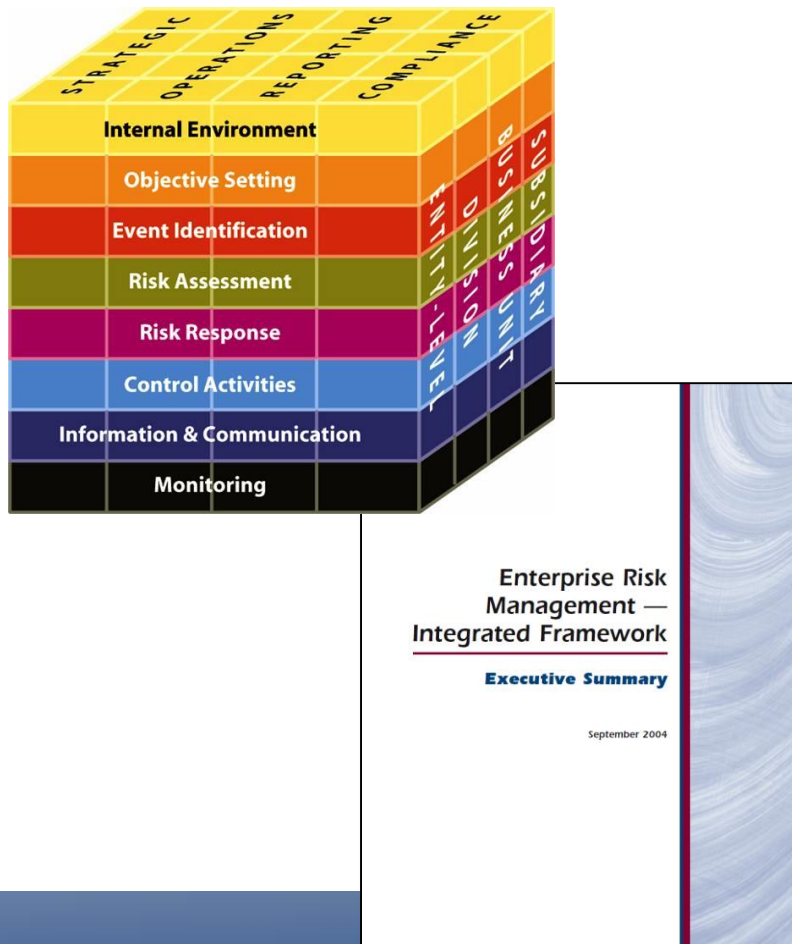


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### **Recommendations**

- Review and adjust your control structure frequently based on risk, not just compliance
- Implement software tools to improve and automate process and control monitoring
- Re-evaluate the use of spreadsheets in addressing risk and compliance issues due to lack of effective scalability

# Monitoring Is a Key Component of COSO



Enterprise risk management (ERM) is the process of planning, organizing, leading, and controlling the activities of an organization in order to **minimize the effects of risk on an organization's capital and earnings**. Enterprise risk management expands the process to include not just risks associated with accidental losses, but also financial, strategic, operational, and other risks.

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