

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

MONITOR THE EXTERNAL ENVIRONMENT

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of monitoring the external environment. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Management obtains current information about the external environment as necessary to evaluate strategic assumptions.
- B. Management understands the technological environment.

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Effectiveness and efficiency of operations

A. Management obtains current information about the external environment as necessary to evaluate strategic assumptions.

Business risks

- The company's business and operational strategies will become irrelevant as a result of invalid assumptions.
- The company's operations will not be responsive to changes in the business environment.

Control practices

1. Design processes that systematically obtain data and information about the environment. Such processes include customer surveys, competitor analyses (including benchmarking), and other forms of business analyses.
2. Train employees who interact frequently with customers to collaborate and share their insights with personnel responsible for new product development.
3. Support upward flow of information within the organization so that employees can provide corporate leaders with relevant information to guide their strategic assessments.
4. Support bottom-up, horizontal and cross-function, and top-down communications throughout the organization.
5. Measure the company's success in obtaining information about the external environment, as necessary to evaluate strategic assumptions, against its strategic goals.

B. Management understands the technological environment.

Business risks

- The company's business and operational strategies will become irrelevant as technological innovations occur in the environment.
- Competitors will gain a competitive advantage through the earlier adoption of new innovations.

Control practices

1. Delegate responsibility for technology issues to an appropriate manager.
2. Establish a communication process for reporting new technology issues to the responsible manager who, in turn, communicates technological issues upward to the management committee and board of directors.
3. Fund and staff the technology research and development department as appropriate so that it can monitor the business, technical, and industry literature and attend technical seminars, conferences, trade meetings, and expositions.
4. Require the technology research and development department to report regularly on its activities, such as programs underway, current status, persons responsible, sponsorship, and potential uses or applications.