Lynceus Management Consulting

Risk Management and Internal Control

Building resilient and responsive internal control systems

2026

Effective internal control system

According to COSO (2013) – the most widely-accepted internal control framework: “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 relating to operations, reporting and compliance.”

1

Effective internal operations

2

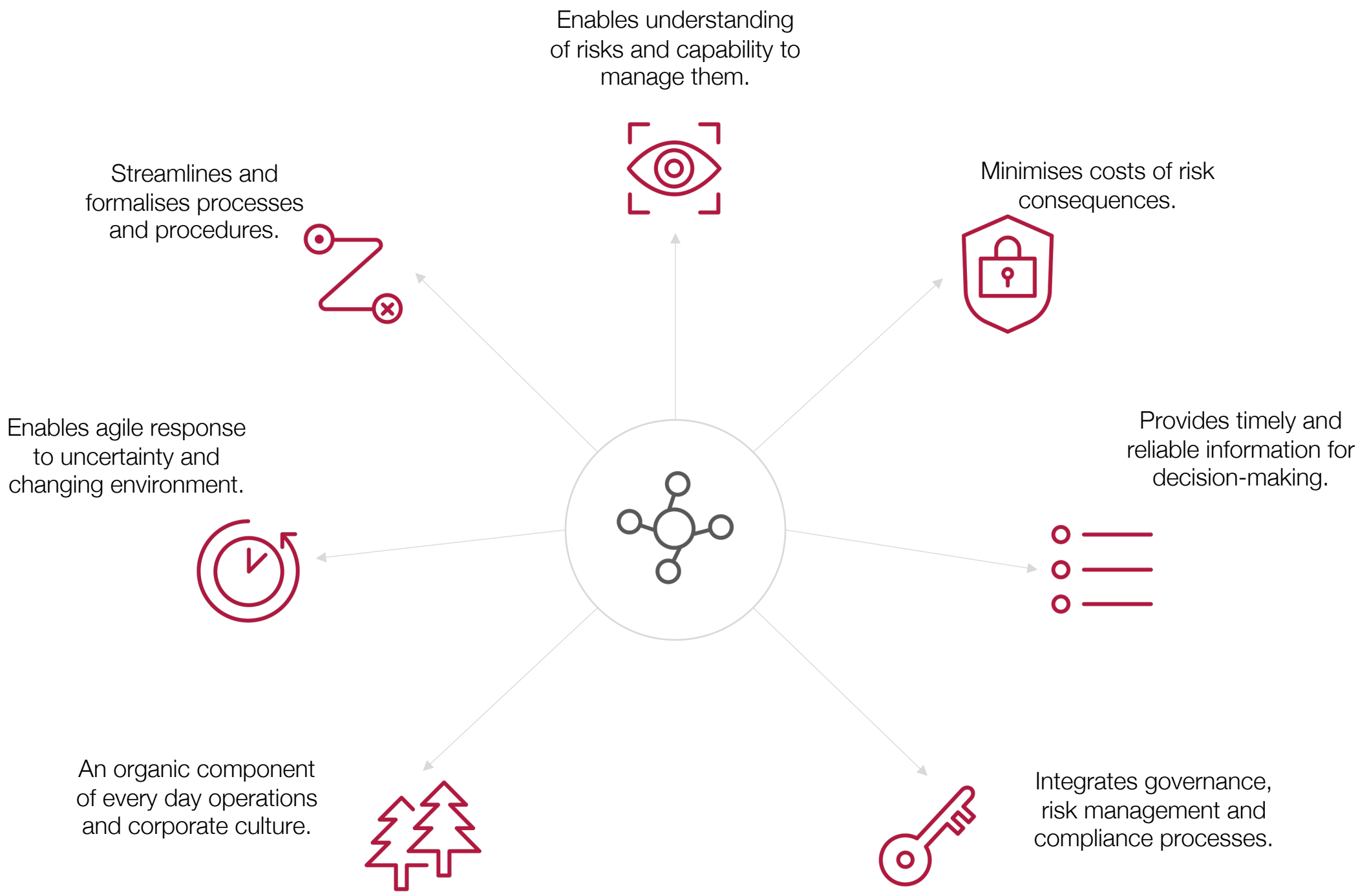
Reporting of true and fair financial information

3

Compliance with laws and regulations

4

Safeguarding of corporate assets



An effective internal control system and management of risks underpins and enables sustainable operations of a company. It enables resilience and adaptability in a continuously changing and highly uncertain environment and helps build trust and confidence of staff, customers and regulators creating a competitive advantage.

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The Three Lines Model

The Three Lines Model developed by the Institute of Internal Auditors, defines how roles and responsibilities should be allocated within the organisation in order to ensure effective risk management and internal controls.

Other key stakeholders

Governing body.

The governing body of an organisation such as the Board of Directors and the Audit Committee ensure overall leadership, integrity and transparency of all risk management and internal control processes.

This oversight function is crucial in ensuring accountability before stakeholders and trust and confidence from staff, customers, investors and regulators. Good governance can protect the organisation from excessive risk, manage compliance burden and instil customer loyalty.

External audit

The external auditor provides another layer of assurance contributing to the trust stakeholders have in the organisation and supporting accountability and transparency.

Reliance of external auditors on the effective function of the three lines can significantly reduce the external audit costs and time.

First Line includes the roles across core organisational functions involved in product or service delivery. These roles are at the forefront of identification and management of risks and execution of internal controls.
E.g. production, sales, procurement teams, marketing and sales departments.

Second Line are roles which provide support to first line functions and coordinate risk management and internal control activities. These supporting functions provide expertise and challenge the existing risk management practices.
E.g. compliance team, internal control and risk management unit, legal department.

Third Line is the independent and objective assurance function within the organisation that provides verification, validation, assurance and advisory support on all risk and control-related matters including assessment of effectiveness of risk mitigation.
E.g. internal audit function.



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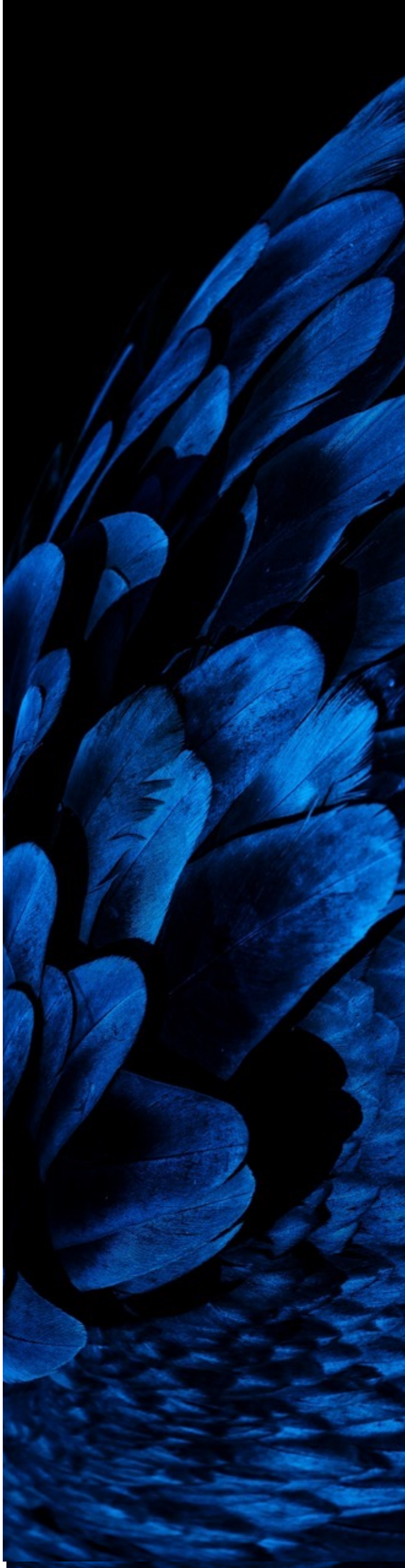
Business objectives

There is a multiplicity of factors constantly increasing the complexity of companies' business processes and the risk landscape.

- Technologies such as artificial intelligence, robotic process automation and blockchain, amongst others are transforming business models as we know them and governance structures, risk management and internal control ecosystems as a result. Third party risks from outsourced technology solutions (e.g. cloud computing, data centres) bring on a host of new risks which require careful coordination.
- Mandatory sustainability requirements and voluntary initiatives require more robust data systems, new competencies and cross-functional cooperation beyond what most organisations have seen before and used to.
- Uncertainty is plaguing the operating environment, where understanding risk factors and impact and modelling potential scenarios is often a precarious and ungrateful exercise as the global ecosystem seems to be functioning outside understandable coordinates.

These drivers, new data and new business processes require organisations to level up.

1. **Responsive risk management**
   Risk management must be predictive and responsive to changing internal and external environment.
2. **Segregation of duties**
   Design of business processes and internal controls to prevent fraud and error from overlapping and conflicting role allocation.
3. **Effective internal controls**
   Understanding of areas of risk concentration in business processes and assurance that internal control systems are effective.
4. **Competent and skilled staff**
   Staff competence is critical with advanced technologies, tightening regulation and complexity of emerging issues such as sustainability..
5. **Good governance**
   Robust governance structures and approaches, oversight and continuous monitoring of control performance in real time.



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Design of a responsive risk management framework

Objective: to establish a predictive, agile and responsive risk management framework that enables timely identification of operating, financial risks and technological risks and their effective management across key business-processes.



How can LMC help

- Establishment and assessment of risk governance structure.
- Design and implementation of a risk management framework.
- Development of risk management policies, guidelines and manuals.
- Embedding of sustainability risks into risk management practices.
- Diagnosis and enhancement of corporate risk culture.
- Risk analysis and implementation of risk monitoring mechanisms.
- High-impact risk area assessment, treatment design and implementation: AI, fraud, sanctions compliance risks.
- Risk management performance assessment.

Key considerations

Organisational structure and arrangements for risk management function coordination across key business processes and units.

Governance arrangements, oversight of risk management processes, decision-making, allocation and segregation of duties.

Technological infrastructure including use of emerging technologies, complexity of IT systems, access controls.

Sector-specific characteristics and extent of exposure to international operations, third party services and nature of supply chains.

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Managing segregation of duties (SOD) risks

Objective: to ensure that risk of fraudulent activities and material error is precluded through transparent and effective segregation of roles, and elimination of duplication to increase operational effectiveness and support staff motivation.



How can LMC help

- Diagnosis of business-processes and identification of business-functions critical for SOD.
- Analysis of business-functions for conflict of interest and SOD deficiencies and sufficiency of existing internal controls to prevent fraud and error.
- Diagnosis of IT system access rights at role and user level for conflicting role allocations.
- Recommendations for improvement of SOD in business-functions and IT systems.
- Development and/or update of SOD matrices.
- Development of internal policies and regulation governing SOD and access rights.

Common SOD deficiencies

- Misalignment between job descriptions and actual functionality of key roles.
- Conflict of interest in allocation of critical roles and responsibilities.
- Ineffective role allocation leading to duplication, overlap or functionality gaps.
- Excessive access rights to systems, data and company information.
- Unauthorised access to information under shared account credentials.
- Increased risks of cyberattacks and fraud due to weak access controls and policies.
- Inappropriate delegation of duties.

Benefits of effective SOD

- Reduced probability and impact of risks related to fraud and error resulting from conflicting roles.
- Enhanced confidence in financial and management information.
- Improved internal control systems and risk management.
- Optimised approach to management of information and system access rights.
- Enhanced security of data and information assets.
- Increased clarity, transparency and accountability across the organisation.

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Implementation of effective internal controls

Objective: to establish a future-oriented internal control system that supports organisational resilience and adapts to the evolving risks faced by the company by leveraging a cost-effective and user-focused methodology.



How can LMC help

- Internal control agile health checks.
- Enterprise-wide internal control framework design and implementation.
- Operational control design and assessment.
- Design and assessment of internal controls over financial reporting (ICOFR).
- Design, implementation and assessment of internal control over sustainability reporting.
- Development of internal control documentation: policy, regulation, manuals.
- Internal control design and assessment in AI-enabled business processes.

Our approach to implementation

- Diagnosis and documentation of business-processes.
- Walkthrough testing of business-processes and identification of inherent risks and existing controls.
- Assessment of control design and evaluation of extent of risk coverage.
- Assessment of operating effectiveness of identified internal controls.
- Development of risk and control matrices for key business processes including role allocation using the Three Lines Model.
- Recommendations for enhancement of existing internal controls and design of new internal controls to improve risk coverage.
- Calculation of residual risk based on internal control design and operating effectiveness evaluation.

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Enhancement of staff skills and competence

Objective: to enable company staff to effectively apply risk management and internal control practices and measures to deliver business value and safeguard from compliance-focused tick-boxing.



How can LMC help

- Training needs assessment and skills gap analysis.
- Development of competency frameworks within risk and internal control functions.
- Design of corporate learning programmes for risk and internal control teams.
- Bespoke seminars and workshops addressing specific problem topics.
- Training sessions and courses on the use of corporate risk management and internal control tools for business-process, risk and control owners.
- Capacity-building for internal audit teams on practical application of Global Internal Audit Standards and assessment of corporate risk and internal control systems.

Capacity-building outcomes

Enhanced staff skills in risk identification, assessment, monitoring and execution of internal controls.

Structured knowledge of company policies and methodologies and ability to apply them fluently.

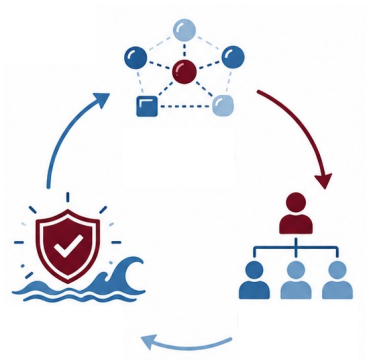
Progressive learning from fundamental to advanced capabilities mapped to roles and responsibilities.

Enhanced professional capabilities of staff for cross-functional and multi-disciplinary collaboration.

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Establishing governance and oversight

Objective: to establish a coherent corporate governance structure and mechanisms to enable efficient internal operations, strategic alignment, organisational excellence and high-performance, risk aware corporate culture, safeguarding the company from fraud whilst maintaining resilience and readiness.



How can LMC help

- Assessment and enhancement of corporate governance mechanisms.
- Establishing effective corporate governance practices.
- Embedding sustainability into governance structures.
- Design and implementation of AI governance mechanisms.
- Integration of internal audit function into organisational structure.
- Development and update of corporate governance code, code of ethics and conduct.

Why is corporate governance important

1. Promotes ethical culture and prevents decision-making under conflict or other negative influence.
2. Encourages transparency and builds shareholder, employee, supplier, customer and societal trust.
3. Ensures equitable and fair treatment of all shareholders and stakeholders with consideration of their unique needs and influence.
4. Maintains accountability of the organisation for its actions and decisions, building confidence of stakeholders that the business will deliver on its promises.
5. Protects the organisation’s financial and operational viability in the long-term ensuring sustainable growth.

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Why LMC?

Technical expertise.
LMC team has extensive and successful track record in implementing complex projects in establishing, assessing and enhancing risk management and internal control systems for large companies and SMEs.

Working in partnership.
We listen to our clients' challenges and work in collaboration to design and implement solutions that answer to specific business context and needs and align to company strategy and capacity.

Agility and flexibility.
LMC is well positioned to deliver tailored and contextualised solutions to our clients with agility and flexibility catering to the dynamic and challenging environments companies operate in. We adapt to changing priorities because we understand that the business environment and risks are not static.

Bespoke solutions.
Drawing from our experience and extensive risk and control libraries and foundational learning assets, we design systems, processes, internal controls and capacity-building programmes for each client on a case-by-case basis because every company and function is unique.

Contacts.

Olga Akimova
Managing Partner
E: oakimova@lynceusconsulting.com

General enquiries
E: lmc@lynceusconsulting.com

Find out more
www.lynceconsulting.com

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