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cutting through complexity

Internal Control

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Internal Control Requirements

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- Non-Federal entities **must** establish and maintain effective internal control that provides reasonable assurance that entity is managing Federal award in compliance with Federal statutes, regulations, and terms and conditions of Federal award.
- Internal controls **should** be in compliance with:
 - COSO (*Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission), and
 - Green Book (*Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States)

Green Book has similar structure to COSO. It will be issued later in 2014.

COSO 2013



Updated Internal Control – Integrated Framework (2013 Framework) issued on May 14, 2013

Companion documents:

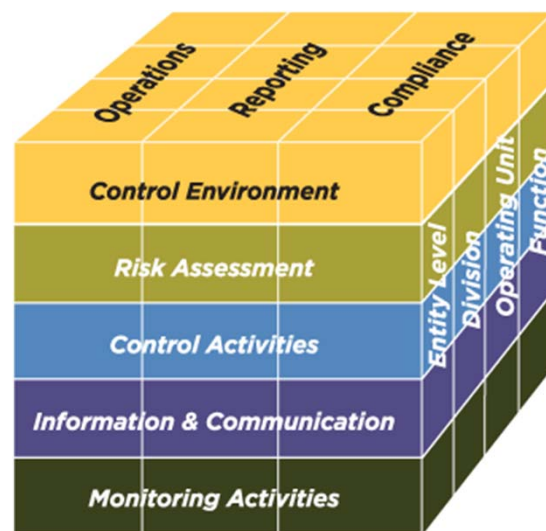
- Internal Control – Integrated Framework: Executive Summary
- Illustrative Tools for Assessing Effectiveness of a System of Internal Control
- Internal Control over External Financial Reporting: A Compendium of Approaches and Examples

COSO 1992 Framework will be available until December 15, 2014, then superseded

COSO 2013 Framework – Summary of Changes

What is *not* changing...

- Core definition of internal control
- Three categories of objectives and five components of internal control
- Each of the five components of internal control are required for effective internal control
- Important role of judgment in designing, implementing and conducting internal control, and in assessing its effectiveness



What is changing...

- Updated for changes in business and operating environments
- Expanded operations and reporting objectives
- Implicit fundamental concepts underlying five components codified as 17 principles
- Updated for increased relevance and dependence on IT
- Addresses fraud risk assessment and response

COSO Components and Principles

For effective internal control:

- Each of the five components and 17 principles must be present and functioning
- The five components must operate together in an integrated manner

Control Environment	<ol style="list-style-type: none">1. Demonstrates commitment to integrity and ethical values2. Exercises oversight responsibility3. Establishes structure, authority and responsibility4. Demonstrates commitment to competence5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none">6. Specifies suitable objectives7. Identifies and analyzes risk8. Assesses fraud risk9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none">10. Selects and develops control activities11. Selects and develops general controls over technology12. Deploys through policies and procedures
Information and Communication	<ol style="list-style-type: none">13. Uses relevant information14. Communicates internally15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none">16. Conducts ongoing and/or separate evaluations17. Evaluates and communicates deficiencies

Process or Internal Control

- Process is the underlying activity
- Internal control is the activity that mitigates the risk to an acceptable level.
 - Addresses the “what could go wrongs”
 - Often addresses completeness and accuracy

Management Review Controls

- Types
 - Analysis for reasonableness
 - Performance reviews
 - Exception report reviews
 - Reviews of reports
- Considerations include:
 - Level of precision or risk tolerance
 - What is an error?
 - Consistency of application of review
 - Reliability of underlying data
 - Follow-up activities

Contact

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