Internal Control

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June 12, 2014
Internal Control Requirements

- 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.

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COSO 1992 Framework will be available until December 15, 2014, then superseded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

<table>
<thead>
<tr>
<th>What is not changing...</th>
<th>What is changing...</th>
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<tbody>
<tr>
<td>▪ Core definition of internal control</td>
<td>▪ Updated for changes in business and operating environments</td>
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<tr>
<td>▪ Three categories of objectives and five components of internal control</td>
<td>▪ Expanded operations and reporting objectives</td>
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<td>▪ Each of the five components of internal control are required for effective internal control</td>
<td>▪ Implicit fundamental concepts underlying five components codified as 17 principles</td>
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<td>▪ Important role of judgment in designing, implementing and conducting internal control, and in assessing its effectiveness</td>
<td>▪ Updated for increased relevance and dependence on IT</td>
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<td>▪ Addresses fraud risk assessment and response</td>
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# 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

<table>
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<tr>
<th>Control Environment</th>
<th>Risk Assessment</th>
<th>Control Activities</th>
<th>Information and Communication</th>
<th>Monitoring Activities</th>
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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
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