

Paying Attention to Internal Controls

COSO vs. Green Book: The Same but Different



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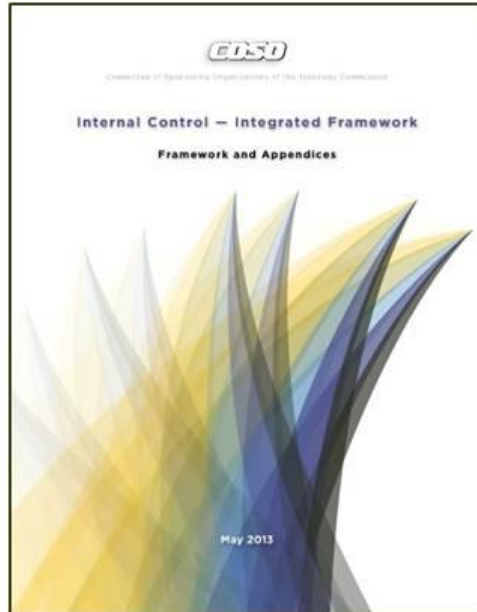
Learning Objective

Understand key differences between COSO's "Internal Control – Integrated Framework" and the GAO's "Standards for Internal Control in the Federal Government" (the "Green Book")

- Similarities and differences in structure
- Similarities and differences in content

Difference: A Framework vs. Standards

A Framework



Three volumes:

- Executive Summary
- Framework and Appendices
- Illustrative Tools for Assessing Effectiveness of a System of Internal Control

Standards



Two volumes:

- Standards for Internal Control in the Federal Government
- Internal Control Management and Evaluation Tool (to be revised)

Difference: Overall Tone and Approach

COSO Framework:

- Accommodates global operations
- Additional details and narrative
- IT general controls
- Focuses on organization's responsibilities for internal controls

Green Book Standards:

- • Accommodates government operations
- • Direct and indexed
- • IT general and application controls
- • Focuses on management's responsibilities for internal controls

Difference: Definition of Internal Control

COSO Definition: “A process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the objectives relating to operations, reporting, and compliance.”

Green Book Definition: “A process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations – Effectiveness and efficiency of operations
- Reporting – Reliability of reporting for internal and external use
- Compliance – Compliance with applicable laws and regulations”

The Same but Different: A Hierarchy

COSO

- Five Components
 - 17 Principles
 - ~ 85 Points of Focus

Green Book

- Five Components
 - 17 Principles
 - ~ 48 Attributes

Both show the relationship of objectives and components in the form of a cube:

- The columns on top of the cube represent the three objectives
- The rows represent the five components
- The third dimension represents an entity's organizational structure



Source: COSO

The Same but Different: 5 Components Supported by 17 Principles

Control Environment:

COSO and the Green Book:

1. Demonstrate commitment to integrity and ethical values
2. Exercise oversight responsibility
3. Establish structures, authority and responsibility
4. Demonstrate commitment to competence
5. Enforce accountability

The Same but Different: 5 Components Supported by 17 Principles

Risk Assessment:

COSO:

6. Specify suitable objectives
7. Identify and analyze risk
8. Assess fraud risk
9. Identify and analyze significant change

Green Book:

6. Define objectives and risk tolerances
7. Identify, analyze, and respond to risk
8. Consider potential for fraud when identifying, analyzing, and responding to risks
9. Identify, analyze, and respond to significant change

The Same but Different: 5 Components Supported by 17 Principles

Control Activities:

COSO:

10. Select and develop control activities
11. Select and develop general controls over technology
12. Deploy through policies and procedures

Green Book:

10. Design control activities to achieve objectives and respond to risks
11. Design entity's information systems to achieve objectives and respond to risks
12. Implement control activities through policies

The Same but Different: 5 Components Supported by 17 Principles

Information and Communication:

COSO:

- 13. Use relevant information
- 14. Communicate internally
- 15. Communicate externally

Green Book:

- 13. Use quality information
- 14. Communicate internally
- 15. Communicate externally

The Same but Different: 5 Components Supported by 17 Principles

Monitoring Activities:

COSO:

16. Conduct ongoing and/or separate evaluations
17. Evaluate and communicate deficiencies

Green Book:

16. Establish and operate monitoring activities and evaluate the results
17. Identify and remediate deficiencies in a timely manner

Similarity: Linking Organization Essentials With Framework/Standards

Mission

Vision

Values

Strategy

Objectives (3)

Components (5)

Principles (17)

Attributes (48, Green Book) or
Points of Focus (87, COSO)

Organizational
Essentials

COSO
Framework/
Green Book
Standards

Similarity: Controls Across Components

Internal control is an integrated process in which components can and will impact another.

Component

Control Environment

Principle

3. The organization exercises oversight responsibility

Controls embedded in other components may affect this principle

Control Environment

Human Resources reviews grant Workers' Compensation claims to assess whether the injury and expenses incurred meet the criteria for payment

Information & Communication

Management obtains and reviews data and information on claims paid, time lost to on-the-job injuries, causes of injuries, light-duty assignments, and injury trends

Monitoring Activities

Internal Audit conducts a performance audit to evaluate the effectiveness of the organization's safety program, its use of best practices to prevent injury claims, and its compliance with laws and regulations

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Questions?

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