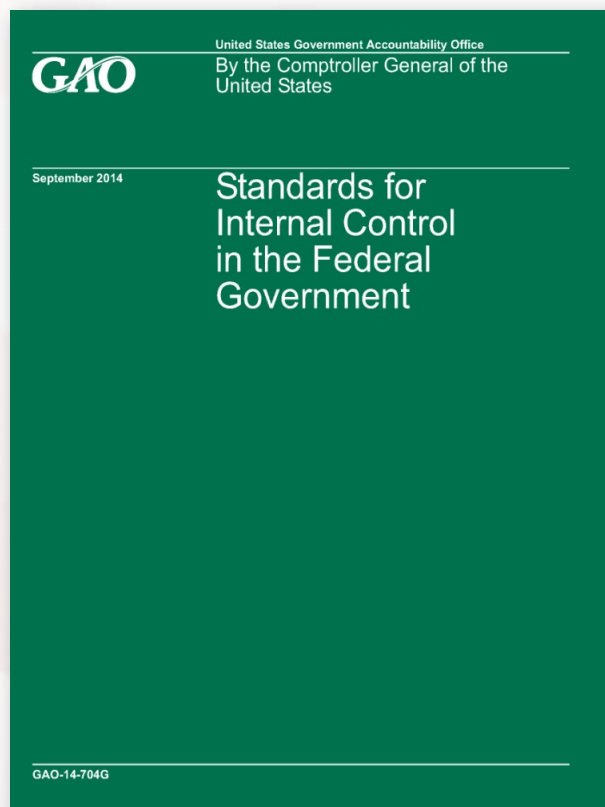


What's New in Government Internal Control Standards?



Going Green

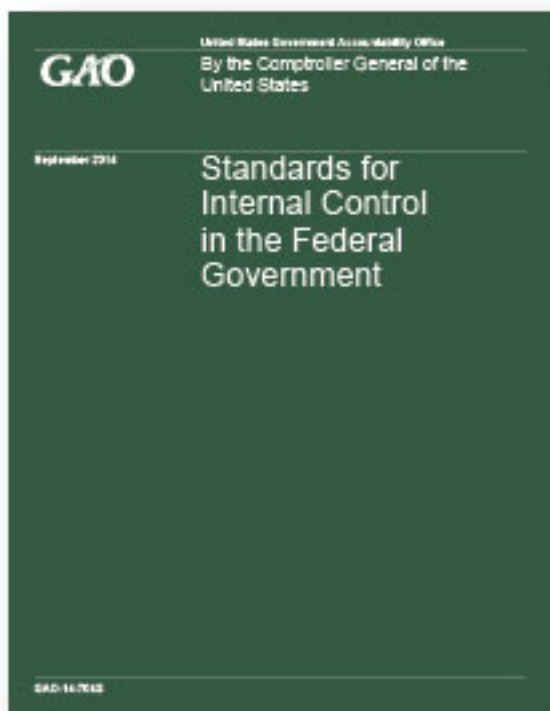
2015 Southeastern and Southwest Intergovernmental Audit Forums

Course Objectives

At the end of this course, participants will be able to:

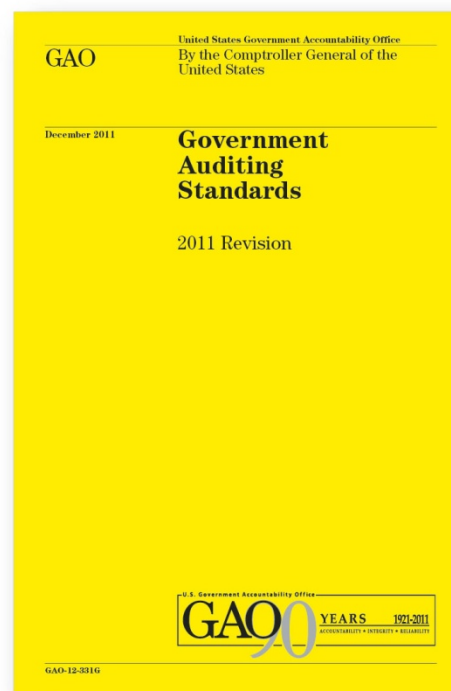
- Demonstrate a fundamental understanding of internal control, based on the 2014 Green Book.
- Describe the five components of internal control and the principles and critical concepts for each component.
- Apply internal control concepts to the audit engagement process, using the Green Book.

Green Book and Yellow Book



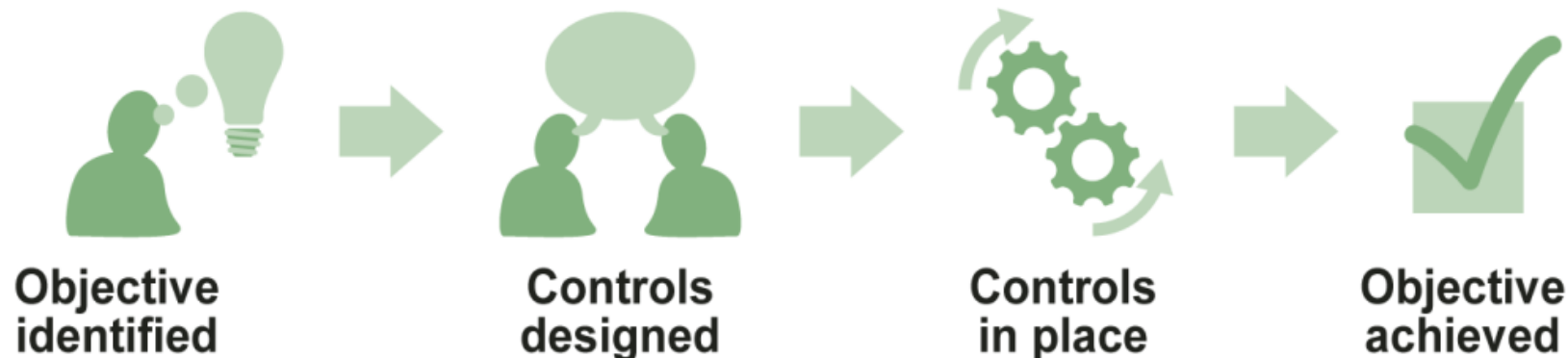
Source: GAO.

- Condition
- Criteria
- Cause
- Effect



Source: GAO.

Internal Control and Objectives



Source: GAO. | GAO-14-704G

Put simply, internal control is a process used by management to help an entity achieve its objectives.

Internal Control and Objectives

Objectives

=

What is to be accomplished?

Strategic goals

**Purpose of
the program**

**Operational
process**

Quarterly internal report

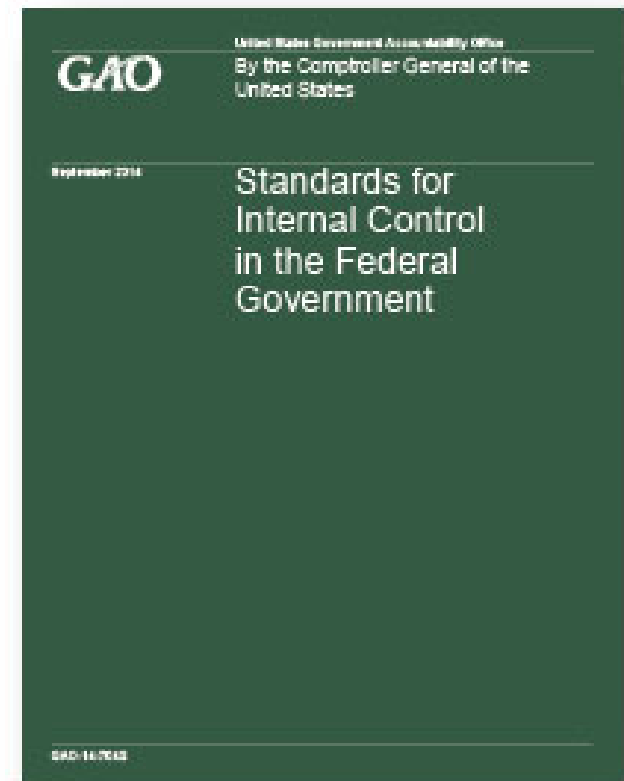
Users of the Green Book

Examples of who would use the Green Book:

- A program manager at a federal agency
- Inspector general staff conducting a performance audit or financial audit engagement
- A compliance officer responsible for overseeing and managing regulatory compliance issues
- Grant recipient personnel responsible for managing awarded funds

The 2014 Green Book

- All requirements from the 1999 Green Book have been incorporated in the 2014 revision.
- The 2014 revision provides more detail of the requirements to help management better understand and implement the standards.
- The 2014 revision will be effective beginning with fiscal year 2016 and the Federal Managers' Financial Integrity Act (FMFIA) reports covering that year. Management, at its discretion, may elect early adoption of the 2014 Green Book.

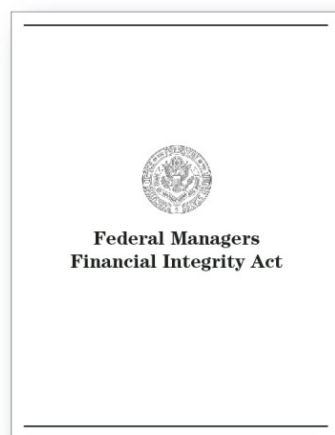


Source: GAO.

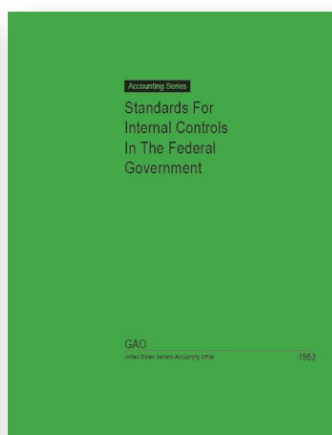
Statutory Authority

- Per the Federal Managers' Financial Integrity Act of 1982 (FMFIA), GAO is required to set the *Standards for Internal Control in the Federal Government* (Green Book).
- Per FMFIA, the Office of Management and Budget (OMB) is required to issue evaluation guidance (Circular A-123, *Management's Responsibility for Internal Control*).
- Auditors may use the Green Book as criteria to evaluate the design, implementation, and operating effectiveness of an entity's internal control system.

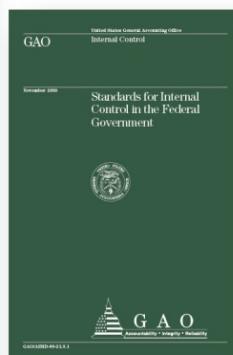
Green Book through the Years



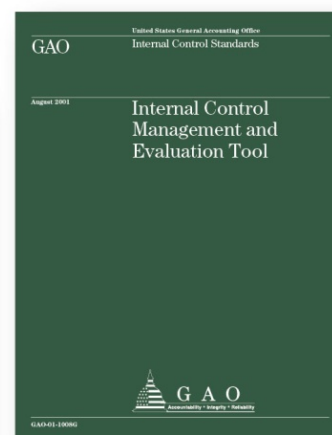
1982
FMFIA



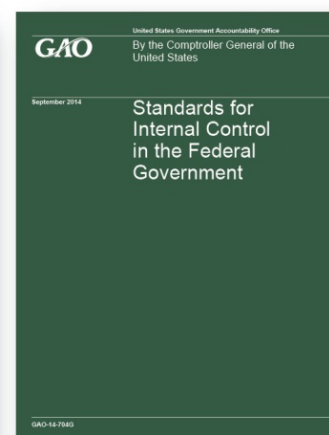
1983
First Green
Book



1999
First
revision



2001
Tool



2014
Current
revision

Source: GAO.

Definitions

Internal Control

“Internal control is 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.” (Para. OV1.01)

Internal Control System

“An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity’s objectives will be achieved.” (Para. OV1.04)

OMB's Uniform Guidance for Federal Awards

§ 200.61 Internal controls.

Internal controls means a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

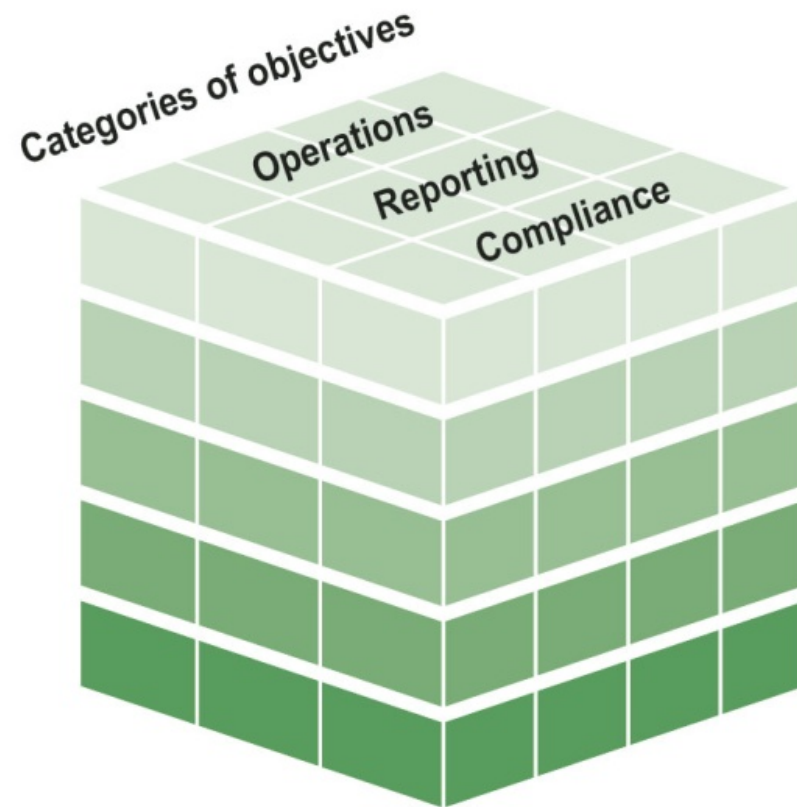
OMB's Uniform Guidance for Federal Awards

§ 200.303 Internal controls.

The non-Federal entity must:

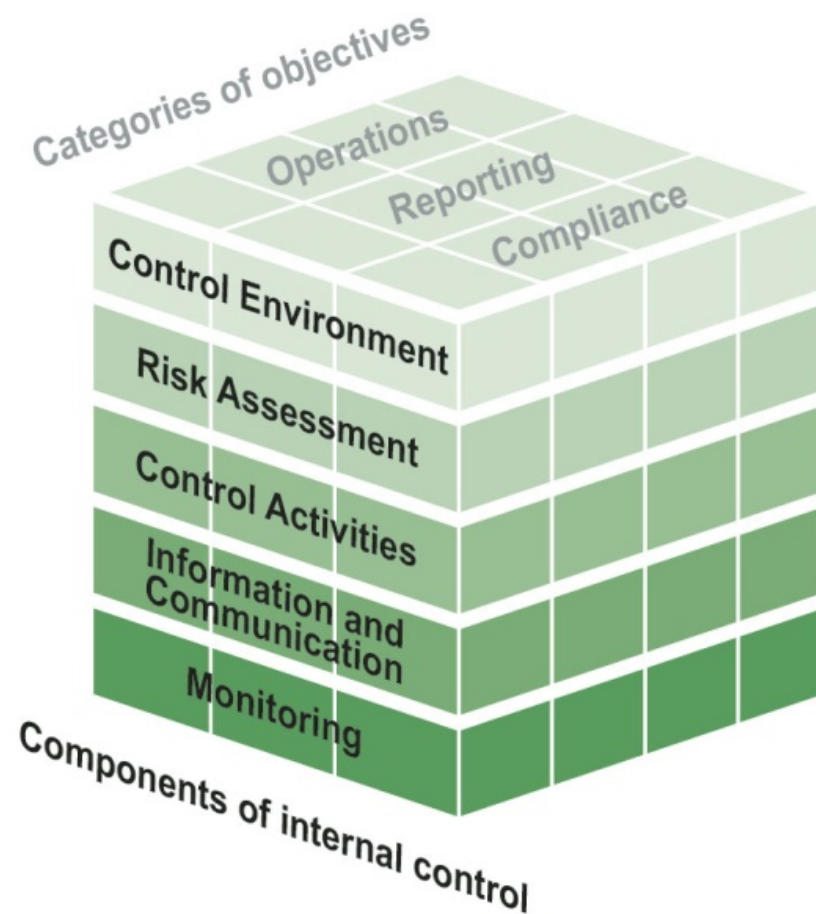
(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Internal Control Cube



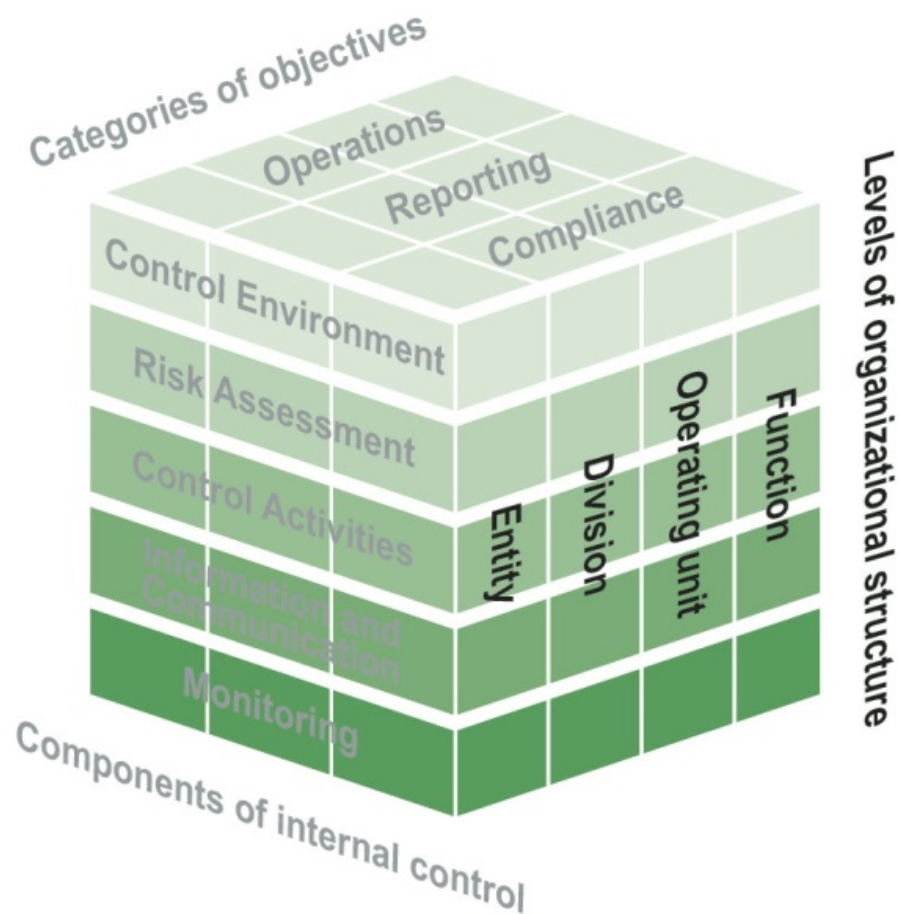
Sources: COSO and GAO.

The Internal Control Cube



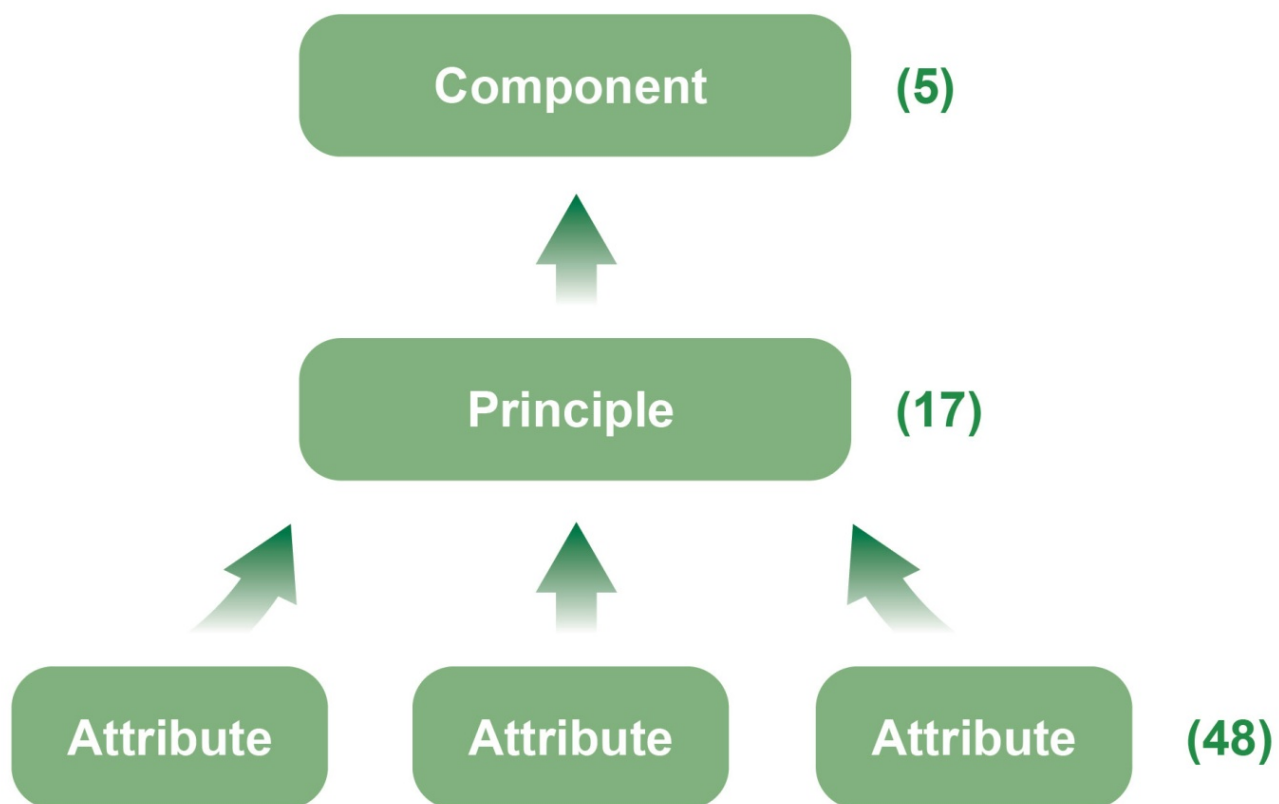
Sources: COSO and GAO.

The Internal Control Cube



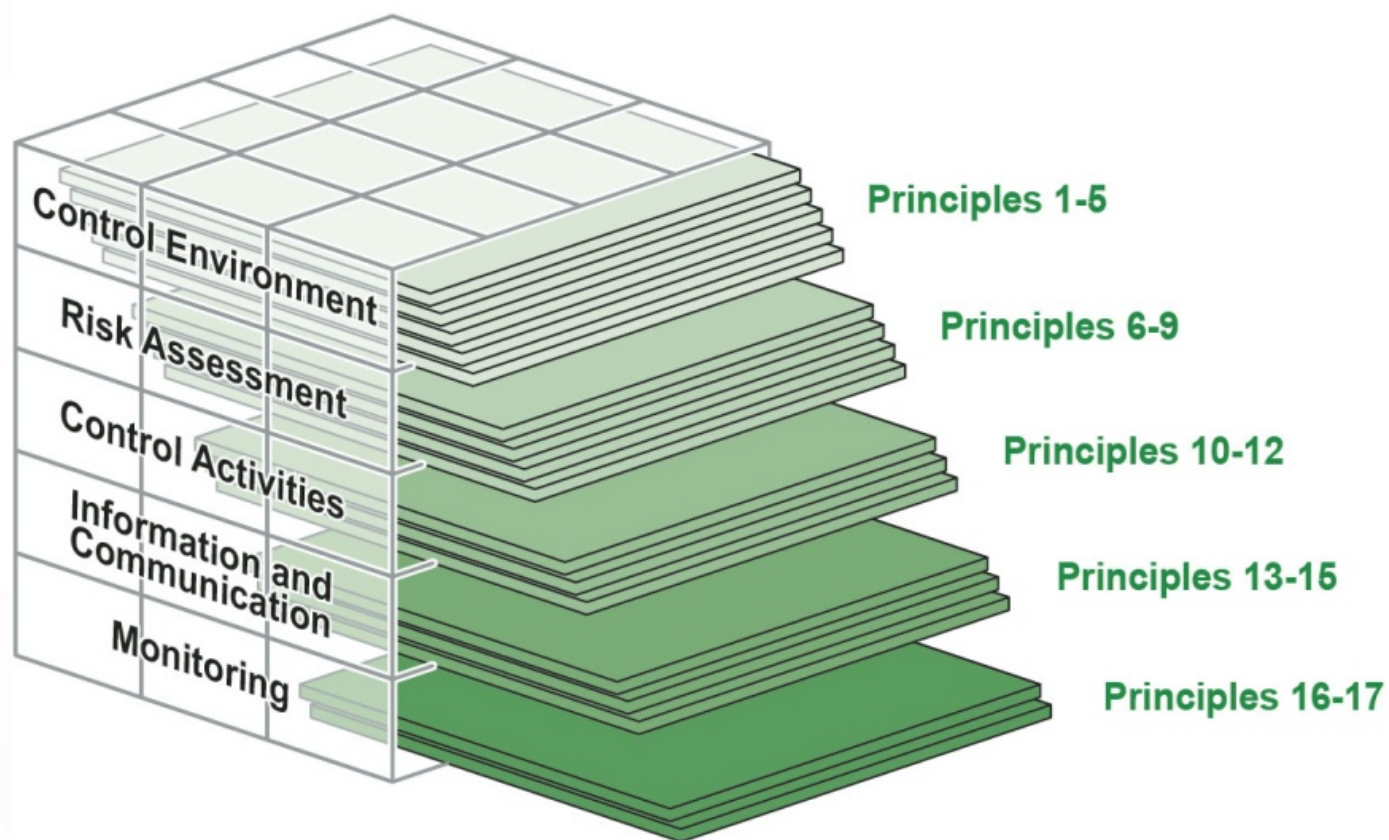
Sources: COSO and GAO.

The Structure of the Green Book



Source: GAO.

Components and Principles



Source: GAO.

Components and Principles

Components

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring Activities

Principles

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability

6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risk
8. Assess Fraud Risk
9. Analyze and Respond to Change

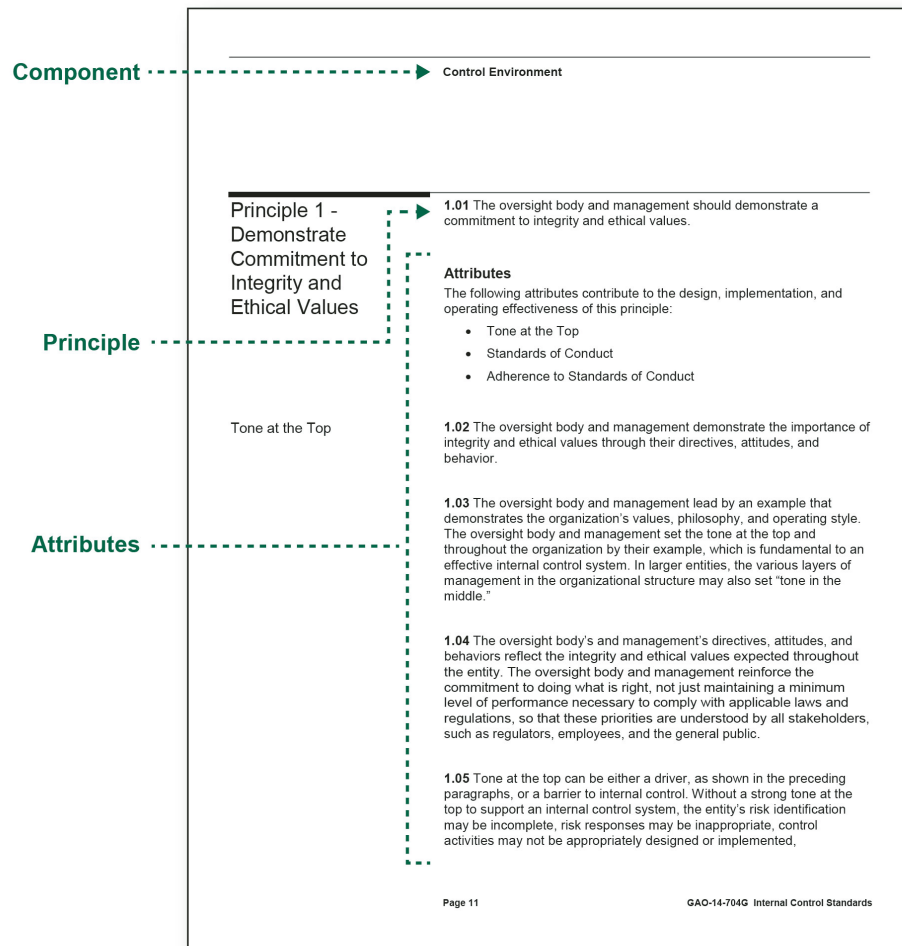
10. Design Control Activities
11. Design Activities for the Information System
12. Implement Control Activities

13. Use Quality Information
14. Communicate Internally
15. Communicate Externally

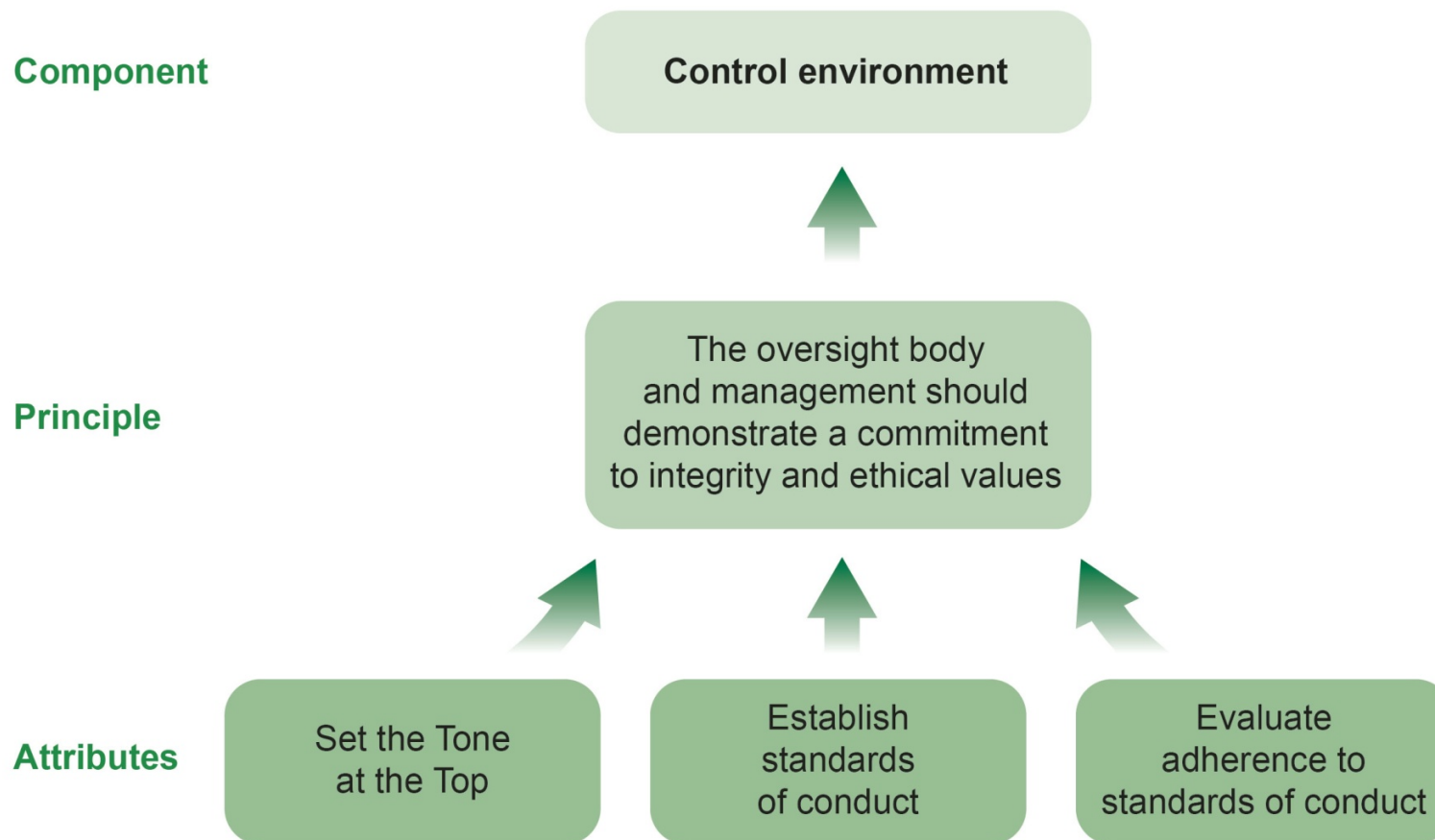
16. Perform Monitoring Activities
17. Remediate Deficiencies

Source: GAO.

Green Book Sample Page



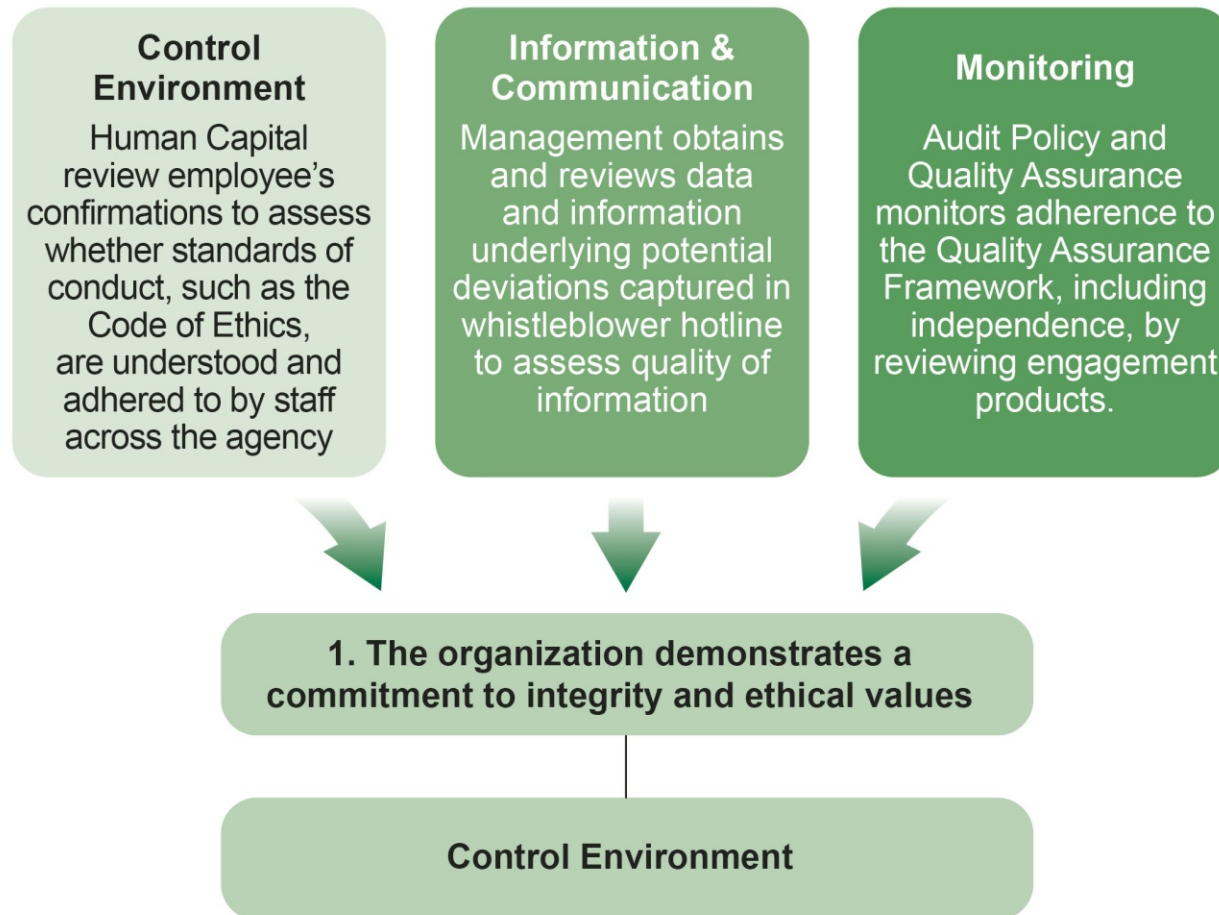
Component, Principle, and Attributes



Source: GAO.

Controls Across Components

Controls embedded in other components may effect this principle

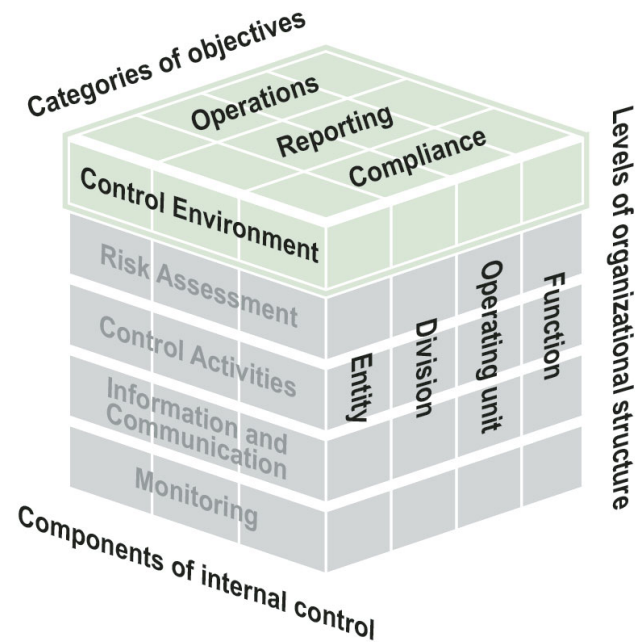


Source: GAO.

Components of Internal Control

Control Environment

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives. (Para. OV2.04)



Sources: COSO, GAO.

Components of Internal Control Control Environment – Red Flags

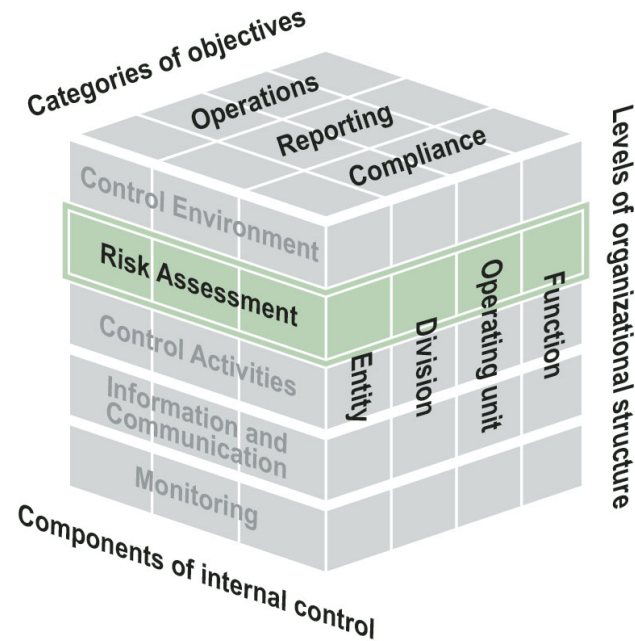


Examples that could indicate an internal control deficiency and require further analysis:

- Personnel do not understand what behavior is acceptable or unacceptable.
- Top management is unaware of activity at the entity's lower levels.
- It is difficult to determine the entities or individuals that have responsibility for programs or particular parts of a program.
- The entity's structure is inefficient or dysfunctional.
- Management displays a lack of concern for internal control and is unresponsive to internal control deviations or recommendations to improve internal control.

Components of Internal Control Risk Assessment

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. (Para. OV2.04)



Sources: COSO, GAO.

Components of Internal Control Risk Assessment – Red Flags



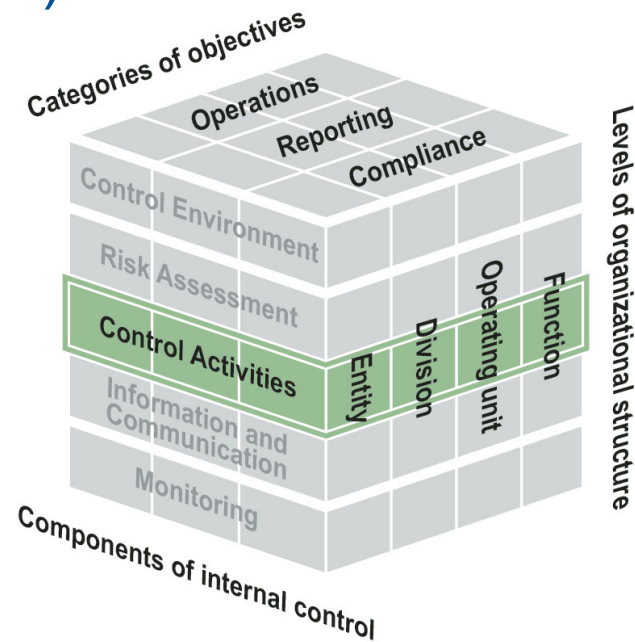
Examples that could indicate an internal control deficiency and require further analysis:

- Management has not reassessed the risk related to recent major changes —The agency or program does not have adequate performance measures.
- Management has not considered previous issues with fraud, waste, or abuse in the agency's risk assessment.
- The agency is unable to prioritize work appropriately.
- The agency is not able to overcome obstacles to its mission efficiently or at all.

Components of Internal Control

Control Activities

Control Activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. (Para. OV2.04)



Sources: COSO, GAO.

Components of Internal Control Control Activities – Red Flags



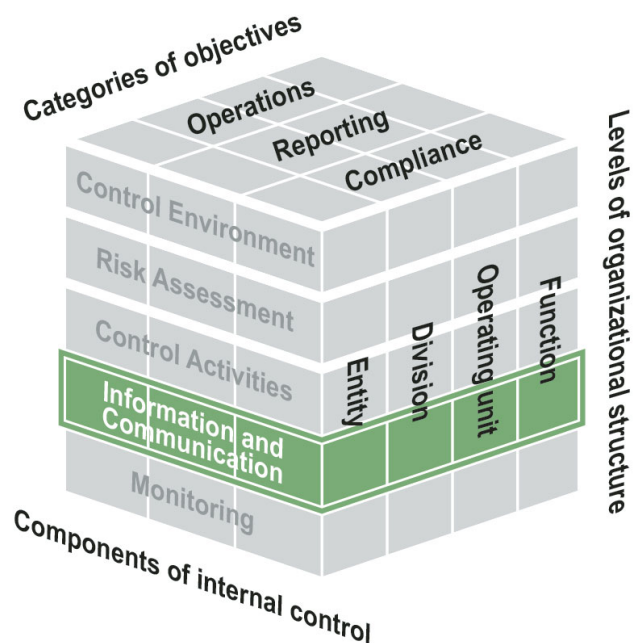
Examples that could indicate an internal control deficiency and require further analysis:

- Employees are unaware of policies and procedures, but do things the way “they have always been done.”
- Operating policies and procedures have not been developed or are outdated.
- Key documentation is often lacking or does not exist.
- Key steps in a process are not being performed.
- Personnel and management are uncertain why processes are being performed or how processes are related to and support program goals.

Components of Internal Control

Information and Communication

Information and Communication – The quality information management and personnel communicate and use to support the internal control system. (Para. OV2.04)



Sources: COSO, GAO.

Components of Internal Control

Information and Communication – Red Flags

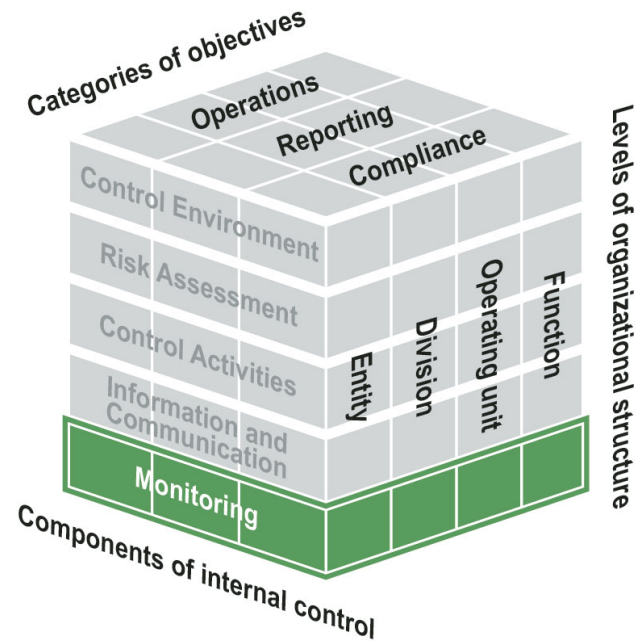


Examples that could indicate an internal control deficiency and require further analysis:

- When top management needs information, there is an excessive rush to assemble it, or the process is handled through ad hoc mechanisms (e.g., the information was not readily available).
 - Management is using poor quality information or outdated information for making decisions.
 - Staff are frustrated by requests for information because it is time-consuming and difficult to provide.
 - Management does not have reasonable assurance that the information it is using is accurate.
 - Personnel are unaware of separate communication lines for reporting confidential information.
-

Components of Internal Control Monitoring

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. (Para. OV2.04)



Sources: COSO, GAO.

Components of Internal Control Monitoring – Red Flags

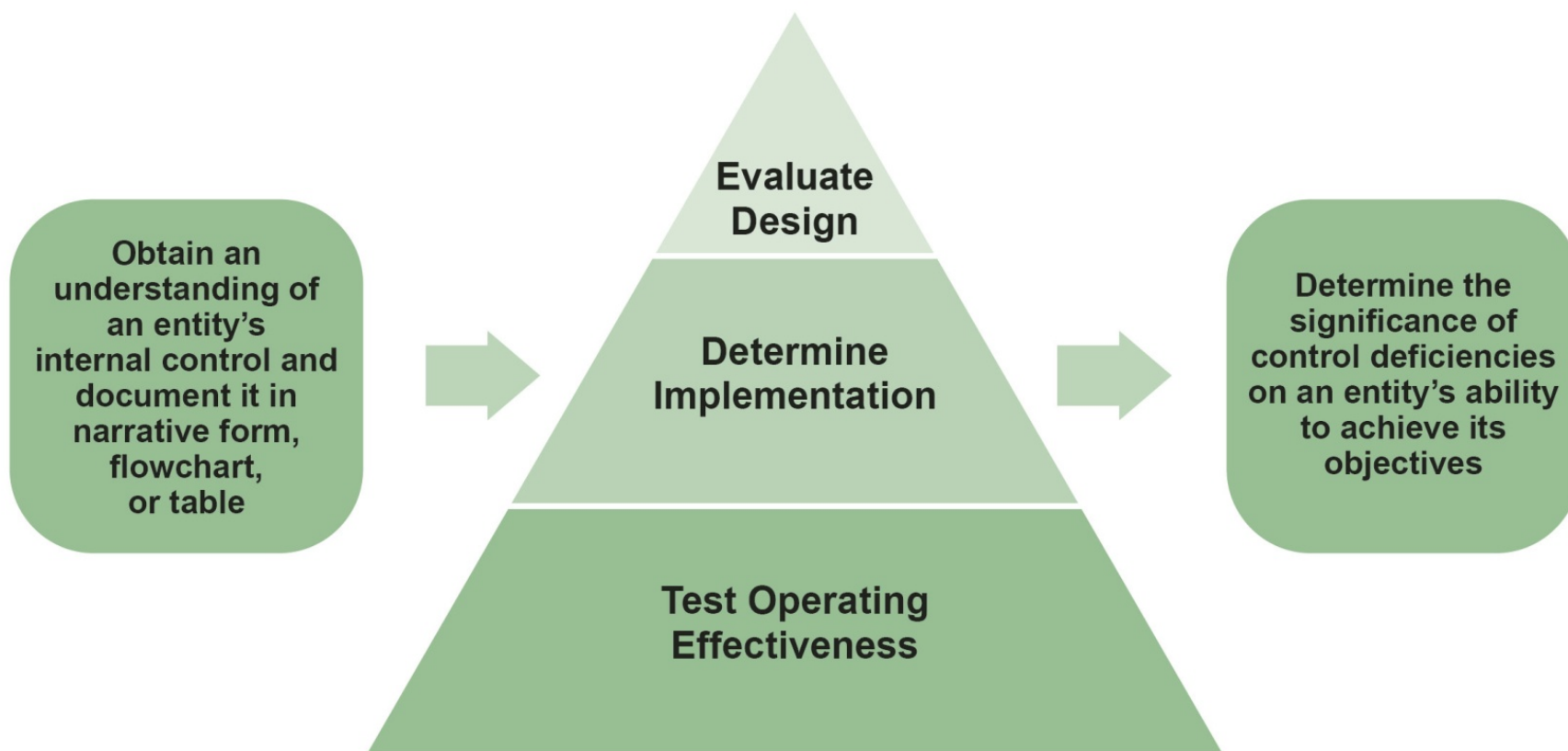


Examples that could indicate an internal control deficiency and require further analysis:

- Management does not evaluate a program on an ongoing basis.
- Significant problems exist in controls and management was not aware of those problems until a big problem occurred or until an outside party brought it to its attention.
- There are unresolved problems with the other components: control environment, risk assessment, control activities, and information and communications.
- Previously identified engagement findings are not being resolved adequately or timely.
- Management misses key deadlines and was not aware that it would not be able to meet deadlines.

Internal Control and the Audit Engagement Process

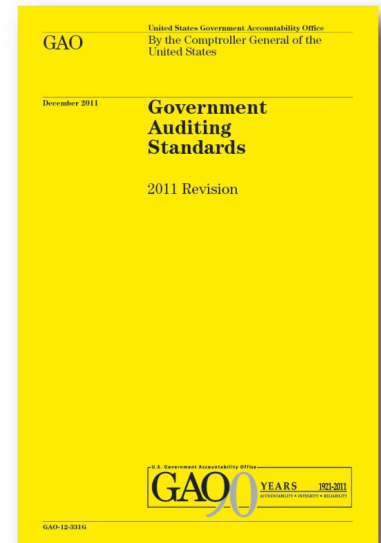
Field Work



Source: GAO.

Yellow Book Requirements for Understanding and Assessing an Entity's Internal Control

- Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives. (Yellow Book, Para. 6.16)
- For internal control that is significant within the context of the audit objectives, auditors should assess whether internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. (Yellow Book, Para. 6.16)



Source: GAO.

Hints for Obtaining an Understanding of Internal Control

Below is one possible approach for obtaining an understanding of internal control:

1. Obtain an understanding of internal control at the entity level for each of the five components of internal control.
2. If a specific program is being reviewed, obtain an understanding of internal control related to the program.
3. Document the obtained understanding of internal control at a level of detail that is sufficient for understanding the controls that are relevant to the audit.
4. Identify the entity's key controls that are relevant to the audit.

Hints for Obtaining an Understanding of Internal Control

Below are some examples of documentation to:

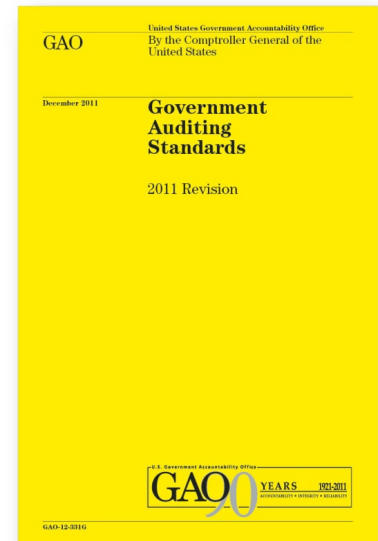
- Obtain from the entity:
 - Entity-level control documentation
 - Policies and procedures
 - Documents or records that support the processes and controls (e.g., flowcharts, memorandums, spreadsheets)
 - Responses to questionnaires concerning controls
- Prepare:
 - Narratives (e.g., Record of Inspection/Observation, Record of Interview)
 - Tables
 - Flowcharts

Determining Implementation and Testing Operating Effectiveness of Internal Control

- Determining implementation of controls means verifying the existence of design of controls by obtaining evidence.
- Evaluating design of controls will not allow you to conclude on internal controls beyond the point of design.
- Determining implementation of controls does not provide assurance for a time period of effectiveness. It provides assurance of effective implementation for a point in time when you reviewed documentation (e.g., on March 31, 2016).

Yellow Book Reporting – Performance Audits

- Auditors should include in the audit report (Yellow Book, Para. 7.19):
 - the scope of their work on internal control and
 - any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.
- Auditors may conclude that identified internal control deficiencies are the cause of deficient performance of the program or operations being audited. In reporting this type of finding, the internal control deficiency would be described as the cause. (Para. 7.20)



Source: GAO.

Some Parting Thoughts

- As auditors, we have a unique and special responsibility in accountability for the prudent use of public resources.
- Good internal control, accountability, and auditing are critical in the public sector for the effective and credible functioning of a healthy democracy, and in fulfilling the government's responsibility to citizens and taxpayers.
- The public relies on us to report whether government services are being provided efficiently, effectively, economically, and in compliance with laws and regulations.
- “Getting it right” with regard to internal control is a key part of an auditor's role, and will keep getting more important as the fiscal situation becomes increasingly more difficult.

Where to Find the Green Book

- The Green Book is on GAO's website at:
www.gao.gov/greenbook
- For questions on internal control, contact us at:
greenbook@gao.gov

Questions?