

Texas State Auditor's Office



COSO Internal Controls Framework

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Course Objectives

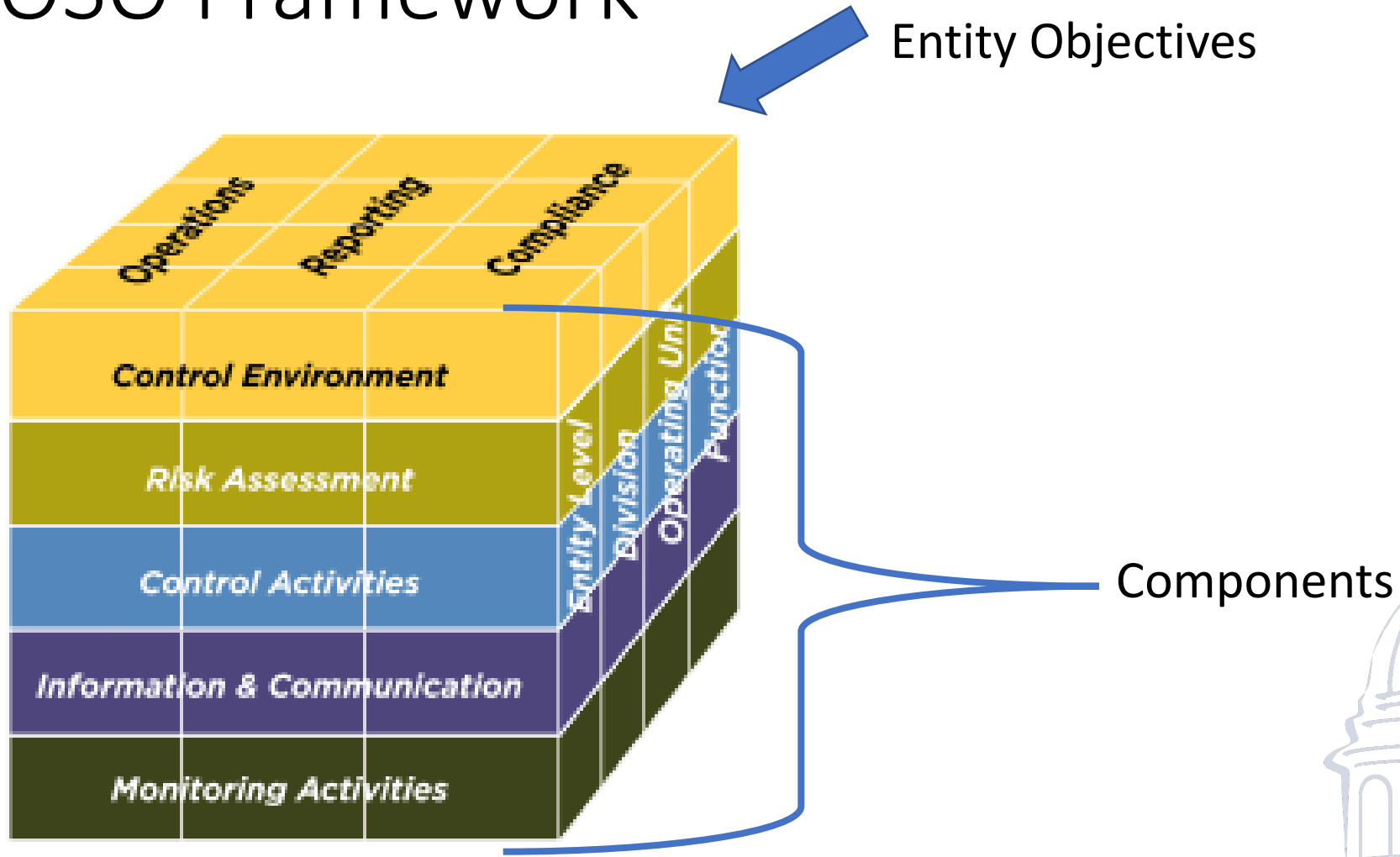
- What is COSO?
- Why do auditors care about COSO?
- How is COSO applied during an audit:
 - Planning
 - Fieldwork
 - Reporting
- What are auditors looking for?



What is COSO?



COSO Framework



Principals

Control Environment

- Commitment to integrity and ethical values
- Board independence and oversight
- Establishes operating structure
- Commitment to competence
- Enforces Accountability

Risk Assessment

- Specific suitable objectives
- Identifies and analyzes risks
- Consider potential for fraud
- Identifies and assesses significant changes

Control Activities

- Selects and develops control activities
- Selects and develops general controls over technology
- Deploys through policies and procedures

Information and Communication

- Uses relevant, quality information
- Internally communicates information
- Externally communicates matters affecting function of controls

Monitoring Activities

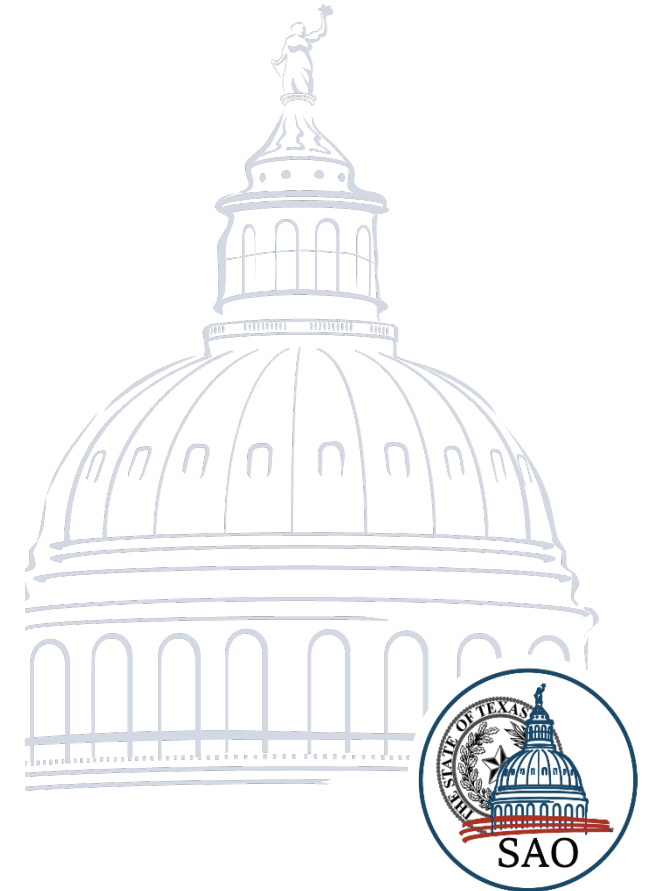
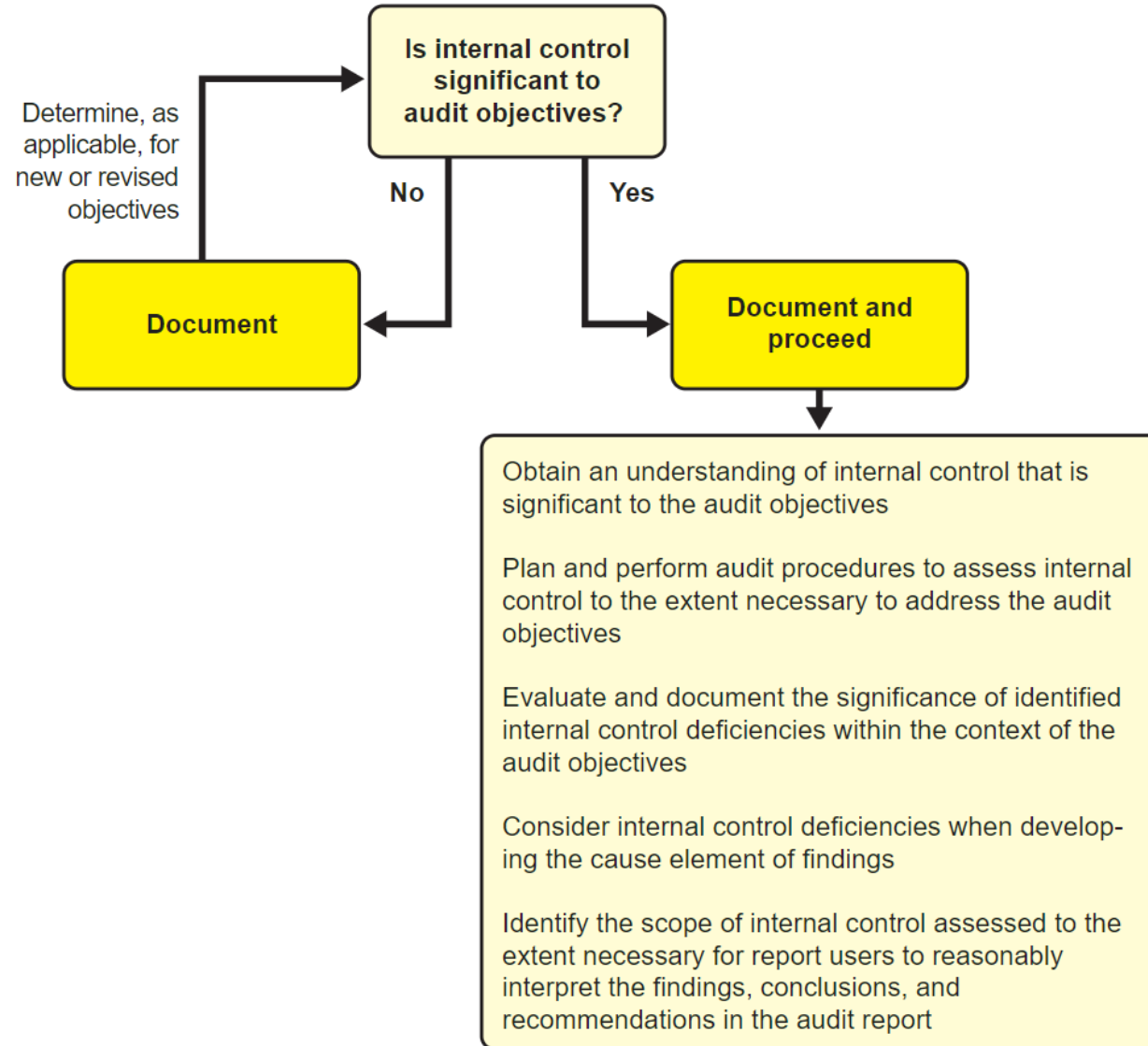
- Conducts ongoing and/or separate evaluations
- Evaluates and communicates internal control deficiencies in a timely manner



Why do auditors care about
COSO?



Auditing Standards: Performance Audits



Auditing Standards: Financial Audits

AU-C Section 315 states that the objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels through **understanding the entity and its environment, including the entity's internal control**, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatements.



What is a control?





Internal Control

[in-'tər-nəl kən-'trōl]

The mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud.

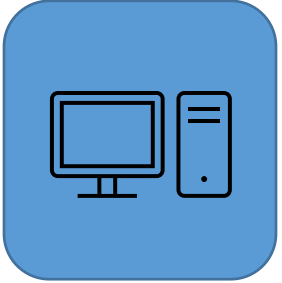
Types of Internal Controls



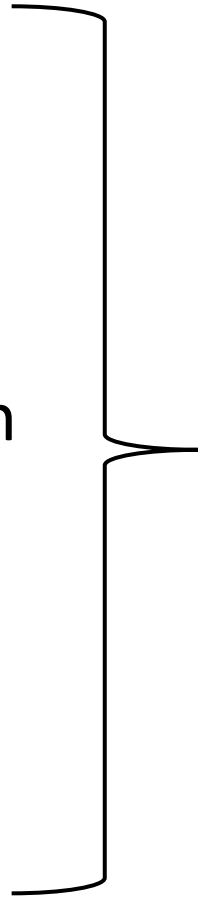
Manual Controls



Application Controls



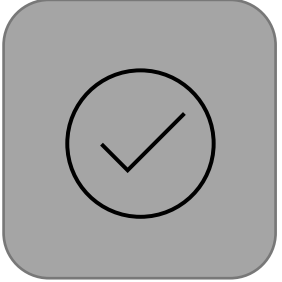
IT General Controls



Preventive



Detective



Corrective



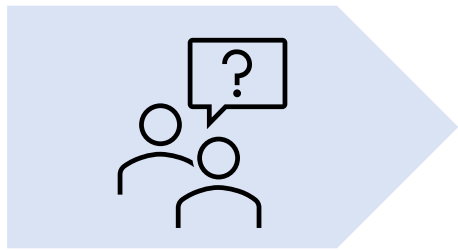
Compensating



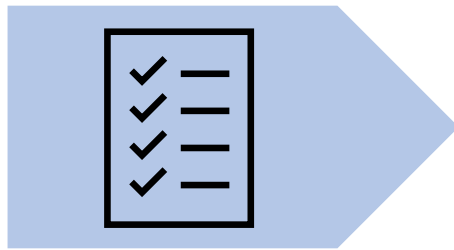
How is COSO applied during an audit?



Stages of an Audit



Planning

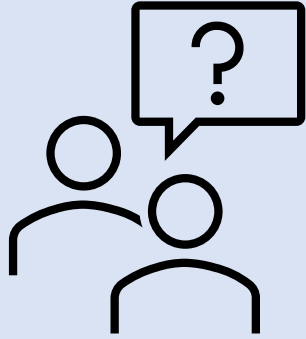


Fieldwork



Reporting

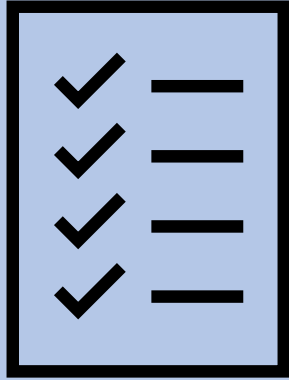




Planning

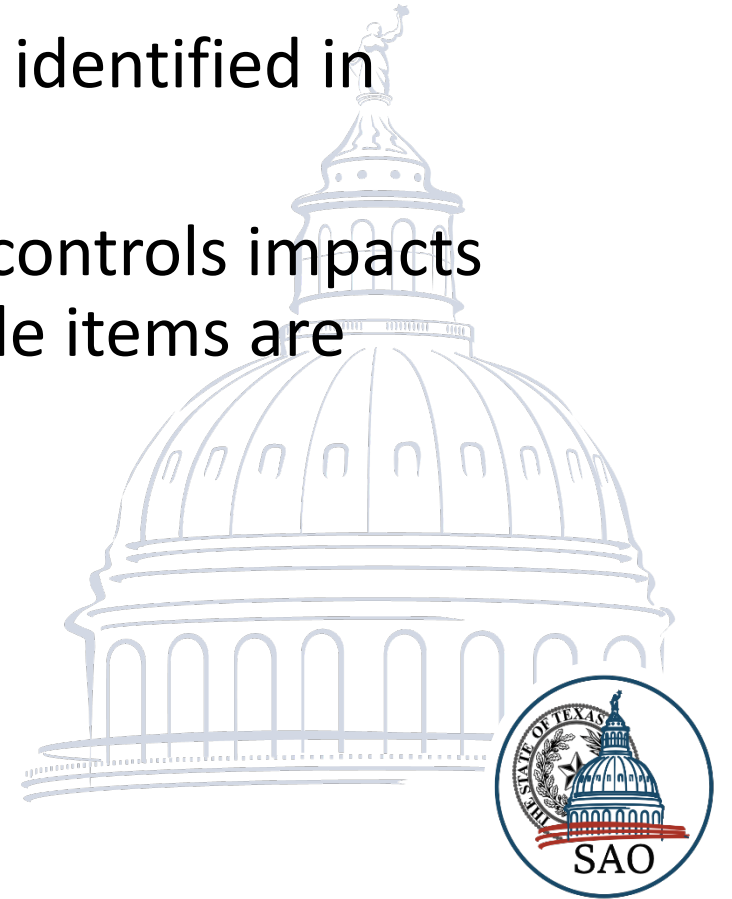
- Gather information about the agency and program under audit.
- Identify significance of controls and assess internal controls.
- Identify key controls over program being audited.





Fieldwork

- Select samples for testing against attributes determined in planning.
- Test key controls identified in planning.
- Effectiveness of controls impacts how many sample items are tested.





Reporting

- Findings
- Recommendations

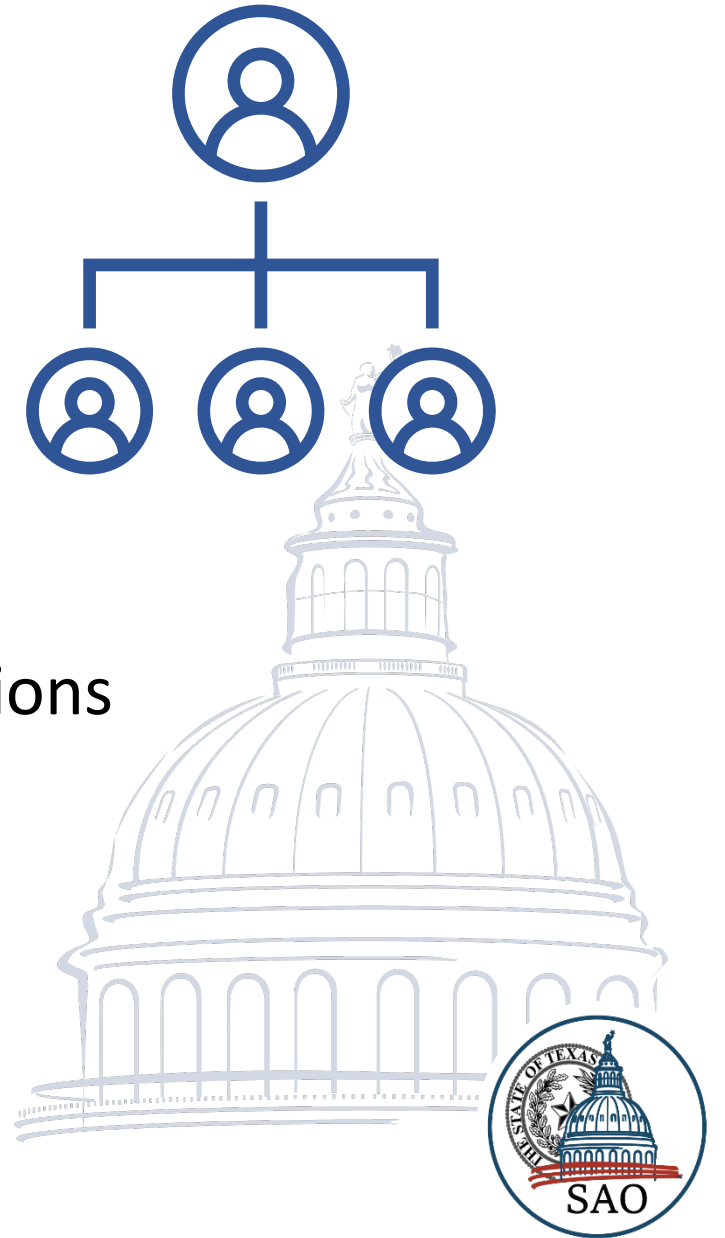


What are auditors looking for?



Control Environment

- Statement of Ethics and code of conduct
- Ethics training
- Conflict of interest policy, annual review
- Organization of program within agency
- Hiring practices – required qualifications, certifications
- Board is independent of agency management
- Internal audit reports to the Board
- Strategic plans



Risk Assessment

- Process to identify and assess risks across departments and implementing mitigating controls (separate from internal audit function)
- Department or officer responsible for monitoring changes in regulations and program requirements
- Have a mechanism to identify and assess risk of noncompliance with program requirements
- Fraud reporting mechanisms



Control Activities

- Edit checks  
- User access  
- Reconciliations  
- Documented reviews and approvals   
- Segregation of duties   



Information and Communication

- Written and available policies and procedures
- Reports
- Training
- Meeting minutes
- Information systems
- Internal and external communication



Monitoring



- Reviewing controls and assessing whether they are still effective
- Ongoing
- Controls updated or changed as necessary



