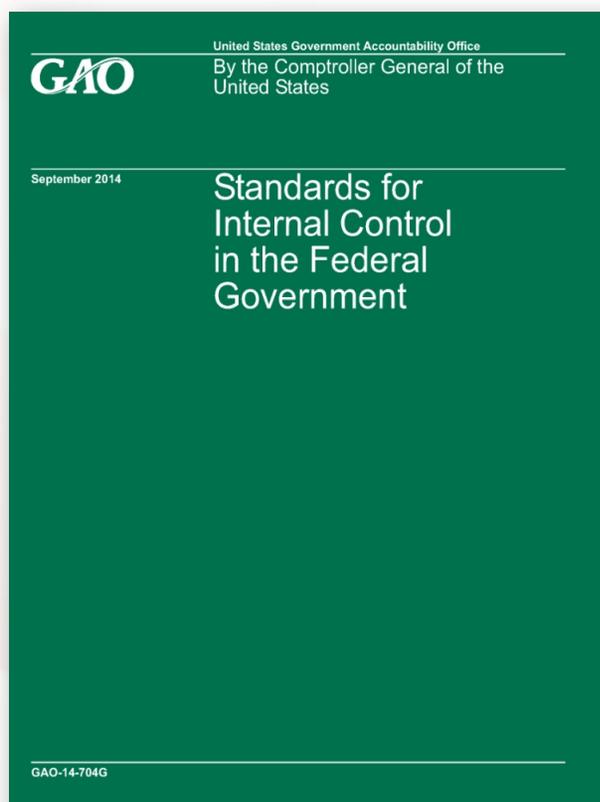


# What's New in Government Internal Control Standards?

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## How is Going Green Going?

## Session Objective

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- To discuss GAO's revision to the *Standards for Internal Control in the Federal Government* (Green Book)

## What's in Green Book for the Federal Government?

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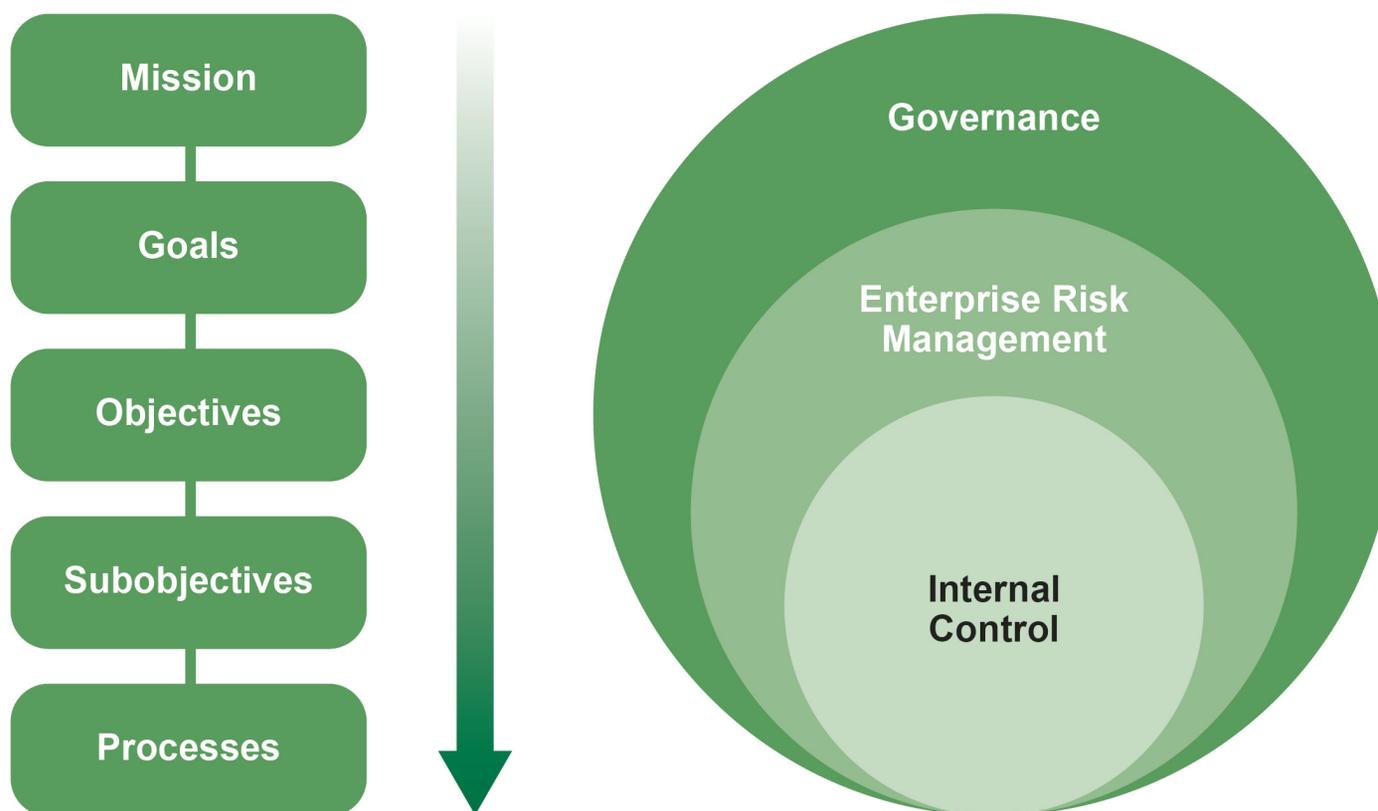
- Reflects federal internal control standards required per Federal Managers' Financial Integrity Act (FMFIA)
- Serves as a base for OMB Circular A-123
- Revised standards effective beginning fiscal year 2016 and the FMFIA reports covering that year

## What's in Green Book for Management and Auditors?

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- Provides standards for management
- Provides criteria for auditors
- Can be used in conjunction with other standards, e.g. Yellow Book

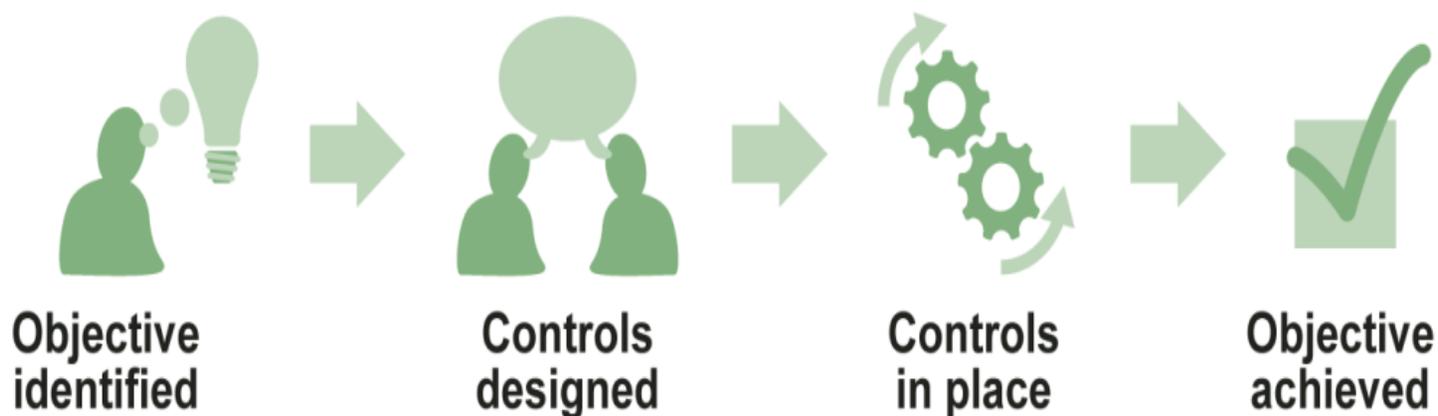
# Relationship of Internal Control to the Strategic Plan and Governance



Source: GAO.

# Fundamental Concepts

Put simply, internal control is a process to help entities achieve objectives.



Source: GAO. | GAO-14-704G

## Fundamental Concepts - Objectives

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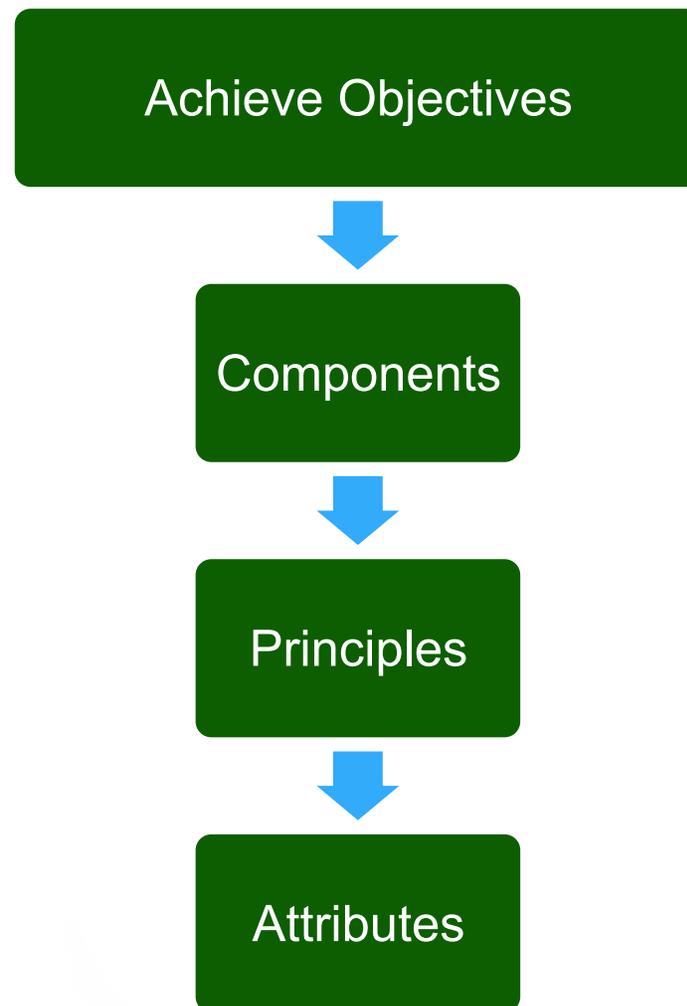
Management groups objectives into one or more of the following three categories (Para. OV2.18):

- **Operations** - Effectiveness and efficiency of operations (Para. OV2.19)
- **Reporting** - Reliability of reporting for internal and external use (Para. OV2.21)
- **Compliance** - Compliance with applicable laws and regulations (Para. OV2.22)

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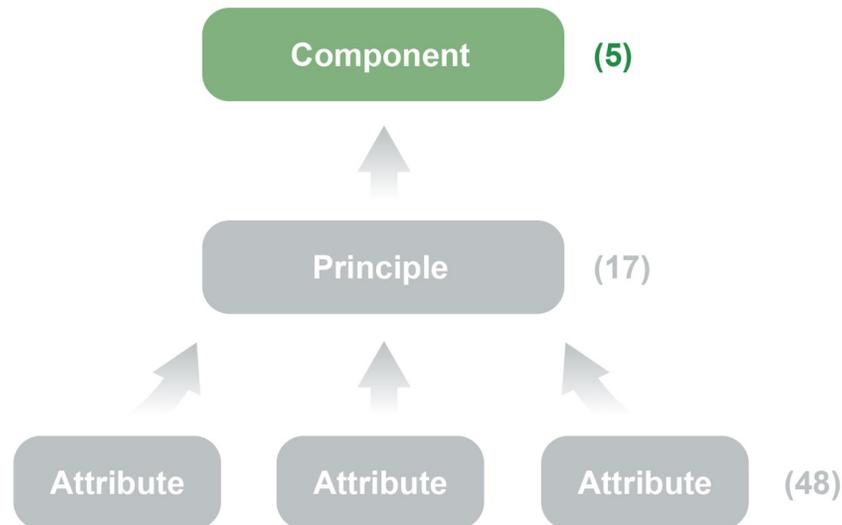
# Overview: Components, Principles, and Attributes

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## Components

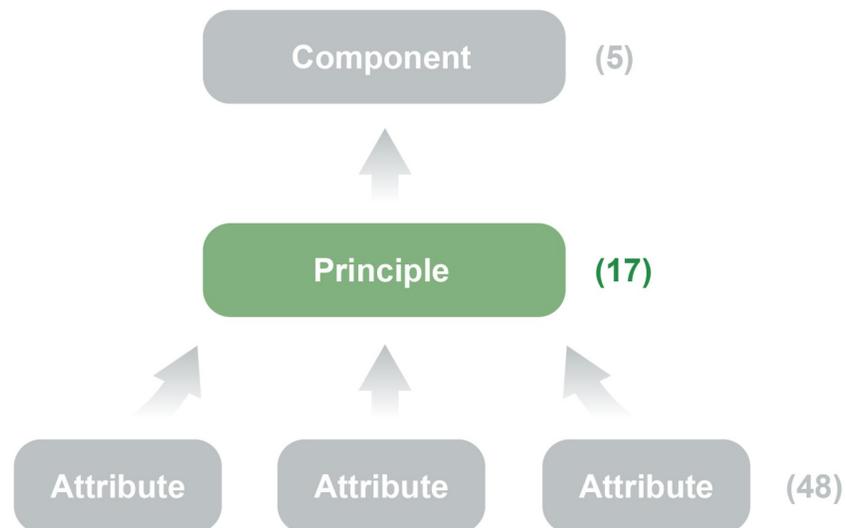
**Components** - The five components represent the highest level of the hierarchy of standards for internal control in the federal government and must be effectively designed, implemented, and operating together in an integrated manner, for an internal control system to be effective. (Para. OV2.04)



Source: GAO.

## Principles

**Principles** - The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system. (Para. OV2.05)



Source: GAO.

# Revised Green Book: Principles

## Control Environment

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

## Risk Assessment

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

## Control Activities

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

## Information & Communication

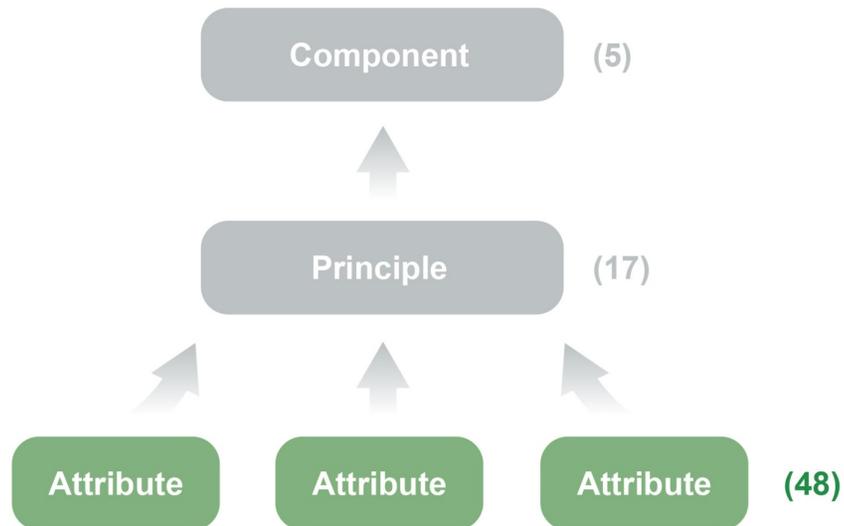
13. Use Quality Information
14. Communicate Internally
15. Communicate Externally

## Monitoring

16. Perform Monitoring Activities
17. Remediate Deficiencies

## Attributes

**Attributes** - Each principle has important characteristics, called attributes, which explain principles in greater detail. (Para. OV2.07-8)



Source: GAO.

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## Component and Principle Requirements

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- In general, all components and principles are required for an effective internal control system
- Entity should implement relevant principles
- If a principle is not relevant, document the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively

OV2.05: The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.

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## Documentation Requirements

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Documentation is a necessary part of an effective internal control system and is required for the effective design, implementation, and operating effectiveness of the internal control system.

- The level and nature of documentation will vary depending on the size and complexity of the entity's operational processes.
- Management uses judgment to determine the extent of documentation needed to meet requirements.

To document an understanding of an entity's internal control, management may consider developing documents such as:

- Policies and procedures manuals
- Flowcharts
- Tables

## Evaluation

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An effective internal control system requires that each of the five components are:

- Effectively designed, implemented, and operating
- Operating together in an integrated manner

Evaluate the effect of deficiencies on the internal control system

A component is not effective if related principles are not effective

## Significance of Internal Control Deficiencies

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- Evaluate the significance of a deficiency by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency. (Para. OV3.08)
- Significance refers to the relative importance of a deficiency to the entity achieving a defined objective. (Para. OV3.08)
- Deficiencies are evaluated both on an individual basis and in the aggregate. (Para. OV3.09)
- Professional judgment is used in the evaluation.

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## Overall Determination of Control Effectiveness

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Conclude on the design, implementation, and operating effectiveness on each of the five components of internal control by:

- Developing a summary determination on the design, implementation, and operating effectiveness of each control principle (related attributes may also be considered) and
- Determining the impact of deficiencies.

Consider process/objective level conclusions when making an overall conclusion at the entity level.

The internal control system is ineffective if:

- One or more of the five components is ineffective or
  - The components are not operating together cohesively.
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## Green Book Components

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- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

## Control Environment

### Examples that could indicate either effective or deficient internal control

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#### Green Flags:

- Management has a developed organizational structure with clearly defined roles.
- Programs are in place to train personnel and reinforce standards of conduct.
- Internal control is adequately documented and reflects the current operating environment.

#### Red Flags:

- Personnel do not understand what behavior is acceptable or unacceptable.
- Top management is unaware of actions taken at the lower level of the entity.
- 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.

## Risk Assessment

### Examples that could indicate either effective or deficient internal control

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#### Green Flags:

- The agency has defined objectives that are easily understood at all levels.
- Management acknowledges risk exists and assesses and analyzes risk throughout the agency.
- The agency has programs in place to combat fraud, waste, and abuse.
- The agency plans for and quickly adjusts to internal and external changes.

#### Red Flags:

- The agency or program does not have well-defined objectives.
- The agency or program does not have adequate performance measures.
- The agency is unable to prioritize work appropriately.
- The agency is unaware of obstacles to its mission.
- The agency is not able to overcome obstacles to its mission efficiently or at all.

## Control Activities

Examples that could indicate either effective or deficient internal control

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### Green Flags:

- The agency has proper segregation of duties of key duties and responsibilities.
- The agency has policies and procedures in place to ensure the safeguarding of assets.
- Transactional data is promptly recorded and supported by sufficient documentation.
- Policies and procedures are routinely reviewed and updated.

### Red Flags:

- 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.

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## Information and Communication

### Examples that could indicate either effective or deficient internal control

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#### Green Flags:

- Management continually evaluates sources of data to ensure information is reliable and accurate.
- Information is accessible and reliable for use internally and externally.
- Policy changes implemented by management are known to and implemented by staff.

#### Red Flags:

- 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 the information.
- Management does not have reasonable assurance that the information it is using is accurate.

# Monitoring

## Examples that could indicate either effective or deficient internal control

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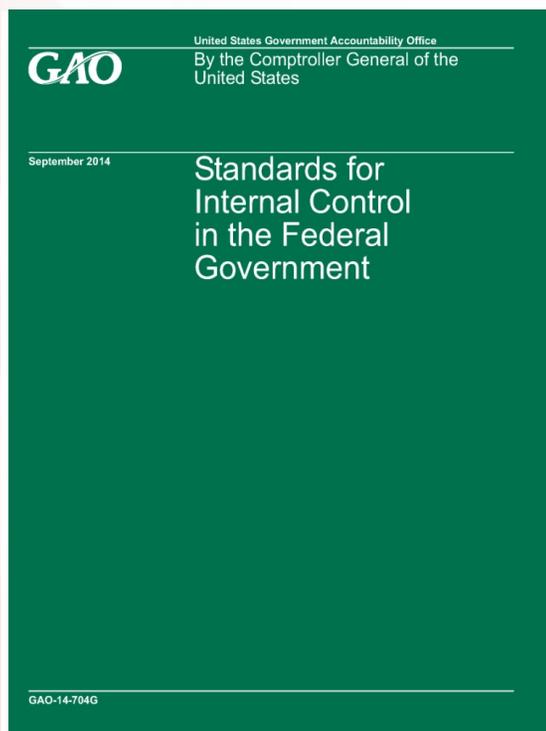
### Green Flags:

- Management implements changes to control structure to enhance efficiency and effectiveness of procedures.
- Documented evaluations exist related to internal control issues.
- Corrective action plans are documented and implemented by management to ensure control deficiencies are addressed.

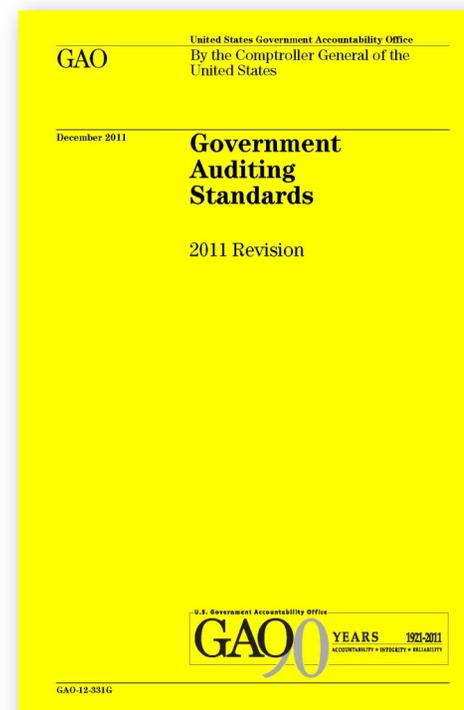
### Red Flags:

- Management does not evaluate a program on an ongoing basis.
- Significant problems exist in controls and management is unaware of problems until a bigger problem occurs.
- There are unresolved problems with the other components: control environment, risk assessment, control activities, and information and communications.

# Ongoing Green Book and Yellow Book Projects



- Green Book Tool
- Proposed changes to Yellow Book



## Green Book Tool

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Focus of the tool will be to provide auditors with guidance on how to assess internal control during an audit

- Help auditors understand internal control considerations throughout an audit and highlight key decisions that should be made
- Present internal control concepts in clear language with specific examples

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# Proposed Yellow Book Changes

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Areas currently being discussed include

- Clarified format
- Competence and continuing professional education
- Internal control
- Quality control and peer review
- Management assertions in performance audits
- Descriptive performance audits

## Where to Find Us

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- The Yellow Book is available on GAO's website at:  
[www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)
- The Green Book is available on GAO's website at:  
[www.gao.gov/greenbook](http://www.gao.gov/greenbook)
- For technical assistance, contact us at:  
[yellowbook@gao.gov](mailto:yellowbook@gao.gov) or [greenbook@gao.gov](mailto:greenbook@gao.gov)  
or call (202) 512-9535



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**Thank You**

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**Questions?**



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