

Comparison of the 17 codified COSO principles to requirements and instructions contained in ARMICS standards and Internal Control Policy (CAPP Topic No. 10305)

Control Environment

<p>1. The organization demonstrates a commitment to integrity and ethical values.</p>	<p>ARMICS minimum requirements on page 18: To demonstrate that the control environment internal control component is established and fully functioning, the agency must meet the following <i>minimum</i> requirements:</p> <ol style="list-style-type: none"> 1. Develop and actively promote a Code of Ethics. 2. Document and assess key elements of the control environment including, but not limited to: <ul style="list-style-type: none"> • Management philosophy • Management’s attitude towards risk • Oversight by the agency’s governing board • Integrity and ethical values • Promotion of ethics and appropriate conduct • Organizational structure • Workforce competence and human resource development • Assignment of authority and responsibility <p>Additionally, ARMICS guidance states, “Agencies that actively and continually support a culture of integrity and ethical values communicate these core values through a code of ethics or similar document. Developing and reinforcing a comprehensive and understandable code is a “best practice” and essential to internal control, linking the agency’s mission and vision to its operating policies and procedures.”</p>
<p>2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.</p>	<p>See ARMICS minimum requirements for control environment above. Additionally, ARMICS guidance states, “When statutes create an agency governing board, its members (commissioners, visitors, or directors) play a critical part in creating the control environment, assessing control adequacy, and monitoring control performance. The board’s independence from management, experience and stature of its members, extent of its involvement and scrutiny of activities, and appropriateness of its own actions all contribute to internal control. Effective boards require effective internal control programs.”</p>

<p>3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</p>	<p>See ARMICS minimum requirements for control environment above. Additionally, ARMICS guidance states, “Assignment of authority and responsibility involves the degree to which individuals and teams are authorized and encouraged to use initiative to accomplish objectives and solve problems. It includes establishing reporting relationships, fixing authorization procedures, issuing policy that assigns appropriate personnel to each program, and allocating resources to do each job. A critical challenge is delegating to the extent required to achieve objectives, ensuring that decision making is based on sound practices for risk identification and assessment. Another challenge is ensuring that everyone understands the agency objectives and how his or her job contributes to meeting those objectives.”</p>
<p>4. The organization demonstrates a commitment to attract, develop and retain competent individuals in alignment with objectives.</p>	<p>See ARMICS minimum requirements for control environment above. Additionally, ARMICS guidance states, “Competence reflects the knowledge, skills, and abilities needed to meet objectives. Management sets competencies for particular jobs and translates those competencies into <i>Employee Work Profiles</i> and employee development programs. Top agencies provide qualified and committed personnel to key control positions.”</p>
<p>5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.</p>	<p>Roles and Responsibilities on page 12. “While each state employee has personal internal control responsibility, the agency head holds ultimate responsibility and must assume ownership for internal control. Other agency executives and managers must support the agency’s internal control philosophy, promote compliance, and maintain control within their areas of responsibility.” Agencies can include internal control responsibilities in Employee Work Profiles (EWPs), policies, procedures, and their Code of Ethics.</p>

Risk Assessment

<p>6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.</p>	<p>ARMICS minimum requirements on page 21: To demonstrate that the risk assessment internal control component is established and fully functioning, the agency must meet the following <i>minimum</i> requirements:</p> <ul style="list-style-type: none"> • Conduct and document an agency-wide risk assessment. This risk assessment should be coordinated with the strategic planning process overseen by the Department of Planning and Budget.
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	<ul style="list-style-type: none"> • Conduct and document risk assessments of each agency fiscal process as part of the documentation and assessment of control activities. <p>ARMICS guidance requires the identification of agency objectives, critical functions and significant agency processes and requires risk assessments of each. ARMICS also requires a SWOT analysis.</p>
<p>7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.</p>	<p>ARMICS minimum requirements on page 21. Additionally, ARMICS guidance illustrates relationships between inherent risk, residual risk, and the risk responses (avoid, reduce, share and accept). Management should consider such factors as the effect of management’s response (control activity) on likelihood and impact of the risk and the cost-versus-benefit of the proposed risk response. However, ARMICS clearly states, “As chief executives of government agencies, agency heads are not authorized to take risks that would knowingly jeopardize their ability to meet obligations for financial management, financial reporting, or compliance with laws, regulations, policies, and procedures. Financial and compliance objectives serve needs of both the agency and of the Commonwealth as a whole and are “not negotiable” when choosing strategies or tactics for achieving program objectives. Agency heads may only accept reasonable risk that relates to operational objectives, not risk that relates to financial or compliance objectives.”</p>
<p>8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.</p>	<p>ARMICS minimum requirements on page 21. The risk of fraud must be included in the agency-level assessment and the transaction-level assessments of each agency fiscal process. Fraud originating inside an agency, as well as fraud perpetrated by individuals outside of the agency, should be considered.</p>
<p>9. The organization identifies and assesses changes that could significantly impact the system of internal control.</p>	<p>CAPP Topic No. 10305, <i>Internal Control</i>, requires the annual review of internal controls by agencies and the annual ARMICS certification. Topic No. 10305 specifically conveys that changes at the agency-level and transaction-level need to be identified and assessed.</p>

Control Activities

<p>10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</p>	<p>ARMICS minimum requirements on page 27. To demonstrate that the control activity internal control component is established and fully functioning, the agency must meet the following <i>minimum</i> requirements:</p> <p>Document and assess <u>agency-level control</u> activities applicable to:</p> <ul style="list-style-type: none"> o All significant fiscal processes o Accounting administration o The general ledger o Information systems <p>Document all <u>significant agency fiscal processes</u> (transaction-level) and assess the operation of their associated control activities. The required agency-level and transaction-level risk assessments would identify risks and controls that mitigate those risks as part of the assessment.</p>
<p>11. The organization selects and develops general control activities over technology to support the achievement of objectives.</p>	<p>ARMICS minimum requirements on page 27. ARMICS guidance specifically requires control activities over information systems be evaluated. General controls include controls over information technology management, infrastructure, security management, and software acquisition, development, and maintenance. ARMICS states, “Compliance with VITA requirements is just one part of overall internal controls and alone is not sufficient to ensure fiscal internal control needs or standards are adequate.” Additionally, “Control activities can be categorized based on the nature of the agency’s objectives to which they relate: strategic, operations, reporting, and compliance. They provide reasonable assurance that objectives are being achieved in the areas of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.”</p>
<p>12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.</p>	<p>Policies and procedures, and the evaluation of them, are included in the agency-level and transaction-level assessment guidance in ARMICS. ARMICS guidance states, “The second component of internal control documentation records review processes, including tests to determine whether control activities and their related policies and procedures are adequate and being followed.” Agencies need to ensure their policies and procedures are current and accurate.</p>

Information and Communication

<p>13. The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.</p>	<p>ARMICS minimum requirements on page 31. To demonstrate that the information and communication internal control component is established and fully functioning, the agency must meet the following <i>minimum</i> requirement:</p> <ul style="list-style-type: none"> • Document and assess how the agency gathers, uses and disseminates information.
<p>14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.</p>	<p>ARMICS guidance states, “Clear internal communication conveys the agency’s Code of Ethics, internal control philosophy and approach, and delegation of authority. Communication about processes and procedures should include clear links to the mission and agency culture. Communication should effectively convey the importance and relevance of internal control and the roles each person plays to support it.” While the 2013 Framework principles tie specifically to internal control, the ARMICS document focuses on all types of agency internal and external communication. ARMICS takes a broader view of information and communication.</p>
<p>15. The organization communicates with external parties regarding matters affecting the functioning of other components of internal control.</p>	<p>CAPP Topic No. 10305, <i>Internal Control</i>, requires the annual review of internal controls by agencies and the annual ARMICS Certification to the Comptroller.</p>

Monitoring Activities

<p>16. The organization selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.</p>	<p>ARMICS minimum requirements on page 35. To demonstrate that the monitoring internal control component is established and fully functioning, the agency must meet the following minimum requirement:</p> <ul style="list-style-type: none"> • Document and assess the effectiveness of the agency’s monitoring activities. <p>ARMICS defines <i>Monitoring</i> as “the process of assessing the presence, functioning, and continuous improvement of internal control components. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.”</p> <p>CAPP Topic No. 10305, <i>Internal Control</i>, requires the annual review of internal controls by agencies and the annual ARMICS Certification to the Comptroller. Agencies are forced to perform continual monitoring of internal controls.</p>
<p>17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.</p>	<p>CAPP Topic No. 10305, <i>Internal Control</i>, requires the annual ARMICS Certification to the Comptroller. Deficiencies in internal control, whether significant, or noted and not significant, should be included in the annual certification. For significant deficiencies, a corrective action plan is required from the agency.</p>