

Internal Controls Over Financial Reporting (ICFR) and Incoming Issues

March 2019

Introduction



- **Sarah Ovuka** - Professional Accounting Fellow – Financial Executives International (FEI)
- Supports FEI's Committee on Corporate Reporting (CCR)
- Leads technical accounting and financial reporting related activities of FEI

Agenda

- Internal controls over financial reporting (ICFR) and incoming issues
 - A History of ICFR
 - ICFR Insights, Issues, and Practices
 - Background
 - Execution
 - Key considerations and how to use them
 - The Future of ICFR
 - Questions

A HISTORY OF ICFR

A History of ICFR

ICFR as Defined by the SEC

- A process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:
 1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
 2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
 3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

A History of ICFR

Timeline of key events

1977 – Foreign Corrupt Practices Act – requires US-traded companies to create a system of “internal accounting controls”

1992 – COSO Internal Control – Integrated Framework – released to help companies measure the effectiveness of their internal control

2002 – Sarbanes-Oxley Act – Congress passes the Sarbanes-Oxley Act, creating the PCAOB and a new oversight regime for auditors of public companies; Sarbanes-Oxley Act Section 404 (SOX 404) requires management to report on the effectiveness of the company’s ICFR and for an independent auditor to attest to management’s assessment.

2004 – Audit Standards (AS) No. 2 – PCAOB adopts AS No. 2 for use when attesting to management’s assessment of the effectiveness of the company’s ICFR as required by Section 404(b) of the Sarbanes-Oxley Act

2007 – Auditing Standard (AS) No. 5 - PCAOB adopts AS No. 5, superseding AS No. 2, creating a more principles based approach and among other changes, revises requirements such that the auditor attests directly to the effectiveness of ICFR

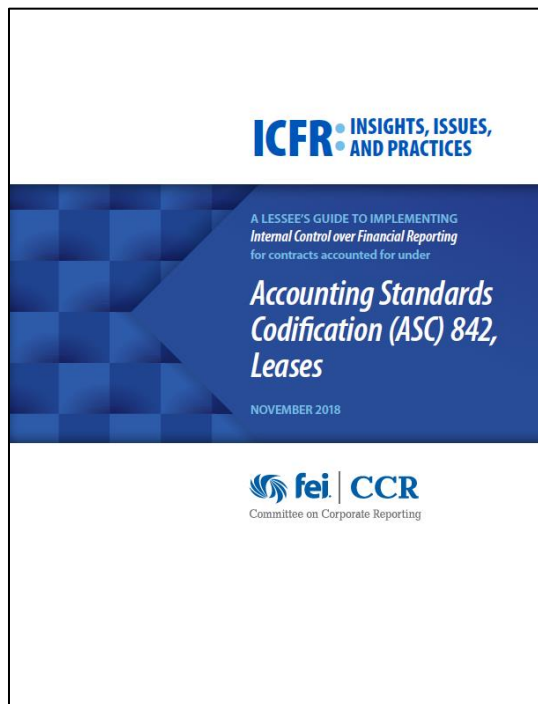
2007 – SEC Management Guidance – SEC approves interpretive guidance to enhance compliance under Section 404 and help public companies strengthen their ICFR

2013 – 2013 COSO Framework – COSO releases updated version of its internal control framework which supersedes the 1992 framework

ICFR INSIGHTS, ISSUES, AND PRACTICES

ICFR Insights, Issues, and Practices

Leases



CECL



www.financialexecutives.org/icfr-insights

Audience Question

1. Prior to registering for this webcast, were you aware of FEI's *Issues, Insights, and Practices* documents?
 - A. Yes, and read them
 - B. Yes, but have yet to read them
 - C. No
 - D. Not sure

ICFR Insights

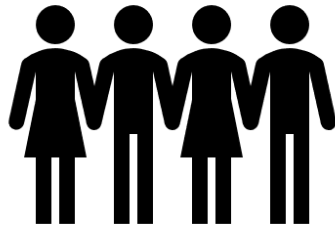
Background

- FEI's Committee on Corporate Reporting (CCR) led the project that resulted in the publication of the "*Insights*" documents
 - Why ICFR?
 - Why Leases and CECL?
- Non-authoritative documents that are concise and practical
- Drafted by preparers, for preparers

ICFR Insights

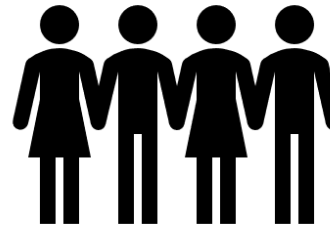
Background

- ~~AS No. 2~~
- AS No. 5
- Audit Methodologies



Auditors

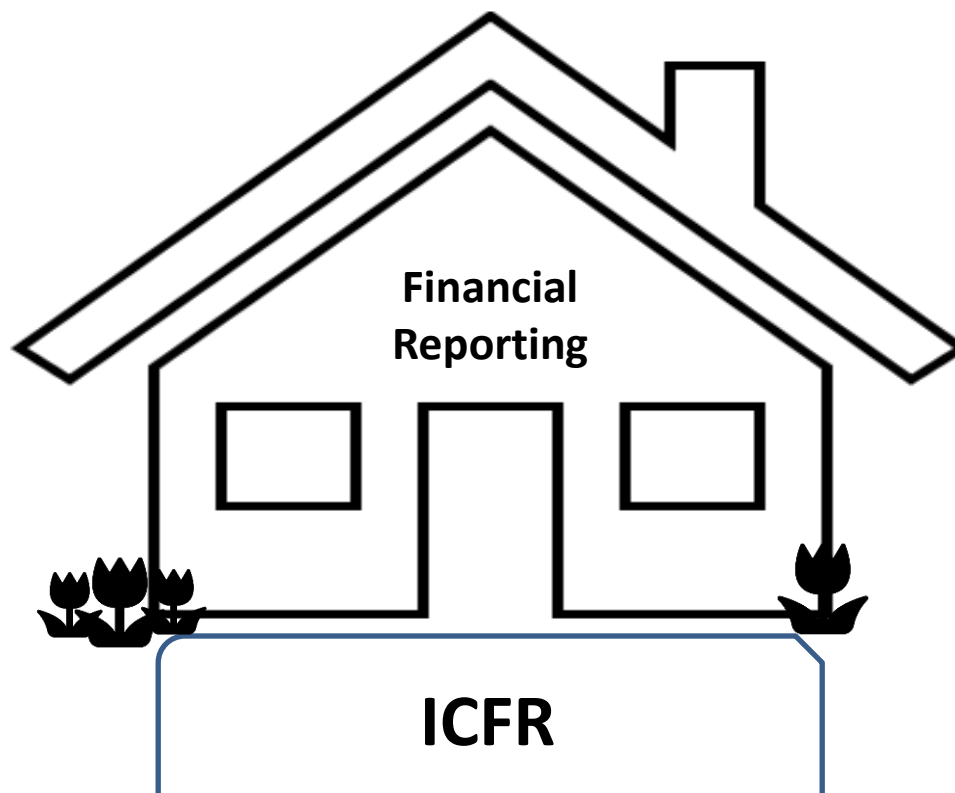
- COSO Framework



**Financial
Statement
Preparers**

ICFR Insights

Background



ICFR Insights

Execution

- Narrowed in on two accounting topics vs. more addressing ICFR more broadly
 - Leases
 - CECL
- Organized a specific “Working Group” to lead the efforts

Audience Question

2. Have you implemented the new *Leases* standard?
- A. Yes, it was a significant effort
 - B. Yes, it was not so bad
 - C. No, still in process
 - D. N/A

Audience Question

3. How far are you in implementing CECL?
- A. Deep in the midst of implementation
 - B. In the early stages
 - C. Haven't started
 - D. N/A

ICFR Insights

Execution

- CCR's ICFR Working Group lead the initiative, leveraging collective experiences to inform the content and direction of the project

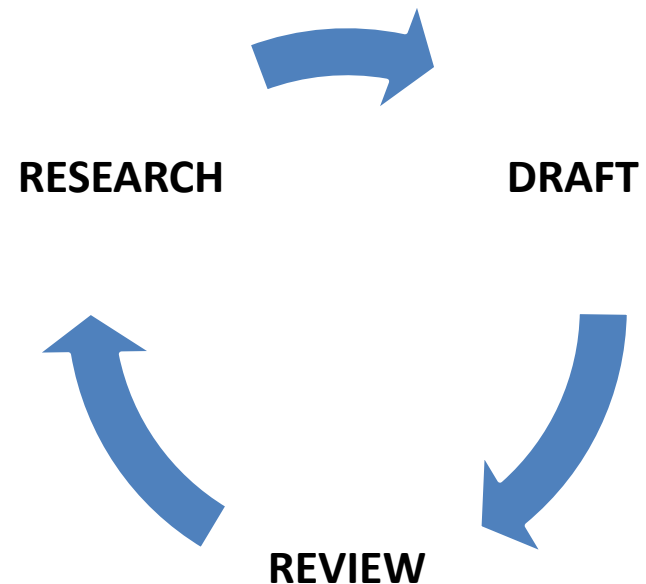


ICFR Insights



Execution

- Leverage subject matter expertise and best practices
- Reviewed by:
 - Respective subject matter team (i.e. Lease Team/CECL Team)
 - Broader ICFR Working Group
 - Broader CCR
 - External parties



ICFR Insights

Key considerations and how to use them

- Objective is to improve practice for other preparers
- Provide considerations, insights and best practices that may provide a support mechanism to help companies achieve effective ICFR
- Not authoritative literature; intended to be thought provoking
- Does not represent a one-size-fits-all approach
- Does not cover the entirety of the respective standards
- Designed to be relevant for all
- Encouraged to leverage considerations and examples, calibrated to respective company risks, judgments and complexities

THE FUTURE OF ICFR

Audience Question

4. What do you think will be the biggest impact to ICFR in the next 5-10 years?
- A. Technology
 - B. New accounting standards
 - C. Cyber risks
 - D. Other

The Future of ICFR

“Internal accounting controls may need to be reassessed in light of emerging risks, including risks arising from cyber-related frauds. Public issuers subject to the requirements of Section 13(b)(2)(B) **must calibrate their internal accounting controls to the current risk environment and assess and adjust policies and procedures accordingly.**”

– Excerpt from the SEC’s Investigative Report: *Public Companies Should Consider Cyber Threats When Implementing Internal Accounting Controls*

QUESTIONS?

THANK YOU!