

Using COSO online resources: the internal control – integrated framework (2013) and compendium bundle

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ABSTRACT

In May 2013, the Committee of Sponsoring Organizations (COSO) released its new Internal Control - Integrated Framework, replacing the framework that had been in place since 1992. Access to the COSO resources have been made available to schools through the American Accounting Association (AAA). Those resources include the Internal Control - Integrated Framework (2013), tools for assessing the effectiveness of internal controls, and a compendium of approaches and examples related to the internal controls of external financial reporting. To introduce students to the framework and the vast resources provided on the COSO website, a series of short classroom assignments were developed requiring students to:

- review the fundamental concepts of the framework itself (the five components and seventeen principles);
- explore the tools and compendium to search for specific examples to meet the needs of a hypothetical company;
- report findings in a concise written form; and,
- demonstrate to the audience of fellow classmates the use of the COSO resources, including their research protocol.

This paper presents the assignment, teaching notes including a grading rubric, and student feedback on the assignment.

Keywords: COSO, internal controls, auditing

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INTRODUCTION

A shared goal of accounting programs is that students are prepared to enter the workforce with usable tools and skillsets. This goal is shared by both graduate and undergraduate programs, although the skillsets for graduate programs may be a bit more focused on skills required by the public accounting profession.

There are several challenges encountered along the way to accomplishing this goal. For many accounting programs, most courses are focused on quantitative aspects of accounting. Debits, credits, Balance Sheets, Income Statements, and Statements of Cash Flows dominate the instructional space. Most courses are focused primarily on having the right numbers and being able to determine definitive answers. Auditing courses are typically near the end of their program. Students enter this class with similar expectations on what they will encounter, namely, more procedures and computations to derive definitive answers. They come into the auditing course with a history of several courses of financial accounting, managerial accounting, cost accounting, tax accounting and a cadre of analytical tools to analyze and present data. They are often somewhat surprised by the lack of journal entries and computations to support definitive answers.

These challenges have been the focus of several previous studies. Boyle and Lloyd (2013) noted that auditing focuses on qualitative aspects which often do not have specific definitive answers in quantitative terms. Boyle and Lloyd (2013) point out that auditing is more a study of “accountANTS rather than accountING.” This shifting focus can present challenges to students who are very accustomed to making computations and seeking specific answers. Auditing students must adopt a different thought process when learning the subject material. (Driskill and Pittman, 2018). Knechel (2000) agrees that accounting educators must create learning environments that provide students with hands-on experiences to enhance their mastery of auditing topics. It was confirmed, as well, by Davidson (2017) and Healy and McCutcheon (2008) that active learning contributes to the learning process in audit education.

The Accounting Education Change Commission (1990) encouraged active learning environments for students to experience more real-world like situations. Driskill and Pittman (2018) posit that a hands-on experience with an audit problem will significantly increase the student’s knowledge and transfer of theoretical methods and models within the profession and better prepare students for their entry into the profession.

Bonner (1999) shows that understanding and gaining expertise in a complicated subject, such as auditing, is enhanced with active learning instructional methods. Grabinger and Dunlap (1995) presented a REAL (Rich Environments for Active Learning) definition which included five steps: (i) student responsibility and initiative, (ii) generative learning activities, (iii) authentic learning contexts, (iv) authentic assessment strategies, and (v) co-operative support. They posit that REALs provide learning activities that engage students in a continuous collaborative process of building and reshaping understanding as a natural consequence of their experiences and interactions within learning environments that authentically reflect the world around them. They conclude that each REAL attribute builds upon and uses the others. None of the attributes are mutually exclusive, and no one attribute is more important than another. You cannot implement one feature without incorporating the others to some degree. This case study incorporates all the aspects of an active learning, or REAL, activity.

The new CPA licensure model keeps audit as one of the three core skill areas. In the 2019 Trends in the Supply of Accounting Graduates and Demand for Public Accounting Recruits, it

was noted that practitioners were increasingly advising schools that accounting curricula need to help students gain a better understanding of technology and its application within the profession.

To wit, the following case study incorporates many of these previous ideas. Students are presented with a very real situation where they use technology resources to explore and find an answer to a posed question, working cooperatively with their peers. Students have responsibility to find the answer, they must take initiative to search for the answer, the question is authentic, authentic assessment strategies are used to evaluate their work, and there is co-operative support as they develop an acceptable solution to present to their peers.

PURPOSE OF ASSIGNMENT AND LEARNING GOALS

The National Commission on Fraudulent Financial Reporting, first chaired by James C. Treadway in 1985 and oft referred to as the “Treadway Commission,” was sponsored by five independent organizations, collectively known as the Committee of Sponsoring Organizations (COSO). The five organizations are the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Financial Executives Institute (FEI), the Institute of Internal Auditors (IIA) and the Institute of Management Accountants (IMA). The work of COSO has focused on providing resources and guidance related to internal controls, enterprise risk management (ERM), and fraud deterrence. It’s first major project resulted in the 1992 publication “Internal Control - Integrated Framework,” which served as the backbone of controls over financial reporting for both public and private entities until 2013 when the framework was updated and revised. COSO also unveiled a related compendium of approaches and examples. Both the Framework and the Compendium were rolled out in an online format available to the public by subscription through the AICPA. Access for educational institutions is available through the AAA.

To introduce students to the framework and the vast resources provided on the COSO website, a case study assignment was developed requiring students to:

- review the fundamental concepts of the framework itself (the five components and seventeen principles);
- explore the tools and compendium to search for specific examples to meet the needs of a hypothetical company;
- report findings in a concise written form; and,
- demonstrate to the audience of fellow classmates the use of the COSO resources, including their research protocol.

The motivation for designing the current assignment was the age-old challenge of including necessary technical content into a specific course when the sheer volume of that content continues to grow dramatically. Specifically, the technical content and skill development in the traditional Auditing classroom has blossomed over the past 20 years, due in large part to the creation of the Public Company Accounting Oversight Board in 2002 as an additional regulator and standard-setter. To help auditing instructors make efficient use of classroom time, it is beneficial to minimize the time and resources spent revisiting content that had been presented to students in a previous course. Thus, this “bridge” type of assignment was developed to review the fundamentals of the COSO Integrated Framework (learned in a prior semester in the Accounting Information Systems class) so that current Auditing class time could be devoted to the auditor's consideration of internal control in planning and performing a financial statement audit. An additional motivation was to provide a vehicle that allows the

students to familiarize themselves with the resources provided on the COSO website. The assignment was developed for and used in a graduate-level Auditing course but would also be appropriate to use at the undergraduate level.

The assignment was designed to achieve two major objectives:

Objective 1: To serve as a review of the COSO Integrated Framework (2013), knowledge that is part of the technical content of the Accounting Information Systems course students took during the prior semester;

Objective 2: To serve as an introduction to the online resources available on the COSO website, including the 2013 Framework and Compendium of approaches and examples.

Specific learning goals associated with the above objectives are that students will:

1. Improve understanding of the elements of COSO's framework
2. Gain confidence in working with/doing research on COSO's website
3. Gain an awareness of the content of the COSO website
4. Demonstrate research skills
5. Write effectively
6. Demonstrate ability to present information orally
7. Work effectively in teams.

ASSIGNMENT DESCRIPTION

Fines Creek Company is a privately-owned company located in North Carolina, specializing in feed for domestic animals and pets. Annual sales revenues are \$7 million, and total assets are \$15 million. The company plans to have a private equity placement of \$10 million in approximately 1 year, so that the processing plant can be upgraded and expanded to meet anticipated increases in demand of their high-quality pet food for dogs and cats.

The current CEO, John Daniels, has sent you, the CFO, the following email: "I was at a conference last week and met a guy from Minnesota who was lamenting how his auditors and audit committee had been critical of the company's internal controls. His company was planning to have a public offering in a few years, but now have put those plans on hold until they clean up their act. I was shocked! I know just enough about internal controls to be dangerous...I need your help!"

"Because we plan to have our first audit next year, I think this is something we need to be focusing on. For the next management team meeting, I would like for you to do a little research and put together a handout for everyone – basically, an Internal Control Primer. What are internal controls? What are the components of the internal controls and the related principles? This should be something that the managers can understand...not too technical."

From that point, each of the emails differs slightly, as set forth in Table 1 (Appendix), each asking the recipient to use the COSO resources and report back to the CEO. The first five of the variations asked that the individual to research how the company might easily implement some of the COSO guidance relating to each of the five components: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. Other tasks included defining what "effective" actually means and what constitutes a "deficiency," summarizing guidance for smaller entities, locating templates that can be used, and making comparisons to the Enterprise Risk Management (ERM) Framework.

TEACHING NOTES

During the second week of class, students were randomly assigned to three-person teams. The instructor led a short introductory session to explain how to access the COSO resources via the university's learning management system. Access to the COSO resources is password protected and is available for purchase at a discount for educational institutions through the American Accounting Association. Each team then selected a number from a bowl, which corresponded to one of the nine case scenarios. The instructor then emailed the appropriate case scenario email messages from "John Daniels" to each student group. Students were given approximately three weeks to work together outside of class time to complete the assignment. Deliverables from the student groups were:

1. An internal control Primer handout, intended to be used in a business meeting of non-accountants;
2. A handout related to the assigned research question, again with an intended audience of non-accountants; and,
3. An in-class demonstration of the group's research protocol using the COSO website, limited to 10 minutes.

Groups submitted their handouts via the Learning Management System two days prior to the presentation date, so that the instructor could check the accuracy of the information prior to presentation to the class.

A grading rubric was used, as presented in Figure 1 (Appendix). Students had prior access to the rubric when the assignment was introduced, so they were aware of how they would be assessed. The design of the rubric allows considerable leeway for instructors to provide specific feedback on the three components of the assignment: the internal control primer handout, the handout addressing the research question, and the presentation. Students were reminded during class meetings to make sure their submissions addressed the intended audience. Overall, group grades ranged from 83.25% to 100%. The 20-point assignment represented approximately 5% of the overall course grade.

The assignment was used for four separate semester-long graduate auditing classes. Over the four semesters, 80 students completed the assignment, with 56 students (70%) completing a survey that provided feedback, summarized in Tables 2 and 3 (Appendix).

The students expressed overwhelmingly positive responses to questions relating to how the assignment served as a good review of COSO components (94%), enhanced their understanding of the elements of the framework (98%), improved their ability to find COSO-related materials (100%), and made them feel more confident in their ability to research COSO-related questions (98%). Further, the students acknowledged that accountants and auditors might find the information on the COSO website useful in the "real world" (93%). Despite the volume of information contained on the COSO website, students were able to find what they were looking for (96%) and did not encounter information overload (55%). It was encouraging that 63% of the students disagreed or strongly disagreed with the statement that they have no interest in learning anything else about this material.

Regarding responses about the project itself, students reported that they had sufficient time to complete the project (98%) and acknowledge the value of hands-on simulation as a way to learn about something (98%). Responses about like/dislike of team projects were evenly split (48% and 50%), although a majority of students indicated that they preferred the assignment

over straight lecture about the materials (66% and 62%). Generally, they seemed to enjoy the project (59%) and recommend that it be continued in future auditing classes (82%).

The last question in the survey was an open-ended question, asking participants to provide other comments and suggestions about the assignment. Selected representative comments are included in Table 4 (Appendix). Suggestions from students that were later incorporated into the project were to post the handouts on the learning management system so they could be shared among class members, and giving students the option to work individually rather than in teams.



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APPENDIX

Table 1	
Version	Text of John Daniels' Email (Differences Underlined)
1	<p>Then, I think we should start getting our own house in order for Internal Controls over Financial Reporting. I think we should start with the <u>Control Environment</u>. Take a look at the COSO Compendium resources and find a few approaches and strategies that we should be able to quickly implement so we can get started on this. Include those in your handout/presentation, also. We'll deal with the other components later.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
2	<p>Then, I think we should start getting our own house in order for Internal Controls over Financial Reporting. I think we should start with <u>Risk Assessment</u>. Take a look at the COSO Compendium resources and find a few approaches and strategies that we should be able to quickly implement so we can get started on this. Include those in your handout/presentation, also. We'll deal with the other components later.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
3	<p>Then, I think we should start getting our own house in order for Internal Controls over Financial Reporting. I think we should start with the <u>Control Activities</u>. Take a look at the COSO Compendium resources and find a few approaches and strategies that we should be able to quickly implement so we can get started on this. Include those in your handout/presentation, also. We'll deal with the other components later.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
4	<p>Then, I think we should start getting our own house in order for Internal Controls over Financial Reporting. I think we should start with the <u>Information & Communication</u>. Take a look at the COSO Compendium resources and find a few approaches and strategies that we should be able to quickly implement so we can get started on this. Include those in your handout/presentation, also. We'll deal with the other components later.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>

5	<p>Then, I think we should start getting our own house in order for Internal Controls over Financial Reporting. I think we should start with <u>Monitoring</u>. Take a look at the COSO Compendium resources and find a few approaches and strategies that we should be able to quickly implement so we can get started on this. Include those in your handout/presentation, also. We'll deal with the other components later.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
6	<p>Then, I think we should start getting our own house in order for Internal Controls. I think we should start with the basics. Take a look at the COSO Framework resources and <u>summarize for the group what "effective" actually means, and what constitutes a "deficiency."</u> Include those in your handout/presentation, also. We'll deal with the other components later.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
7	<p>Then, I think we should start getting our own house in order for Internal Controls. I think we should start with the basics. Take a look at the COSO Framework resources and <u>summarize for the group the guidance that is available for smaller entities, like us.</u> Include those in your handout/presentation, also.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
8	<p>Then, I think we should start getting our own house in order for Internal Controls. I think we should start with the basics. Take a look at the COSO Framework resources and <u>try to find some templates that we can use for overall and component assessment.</u> Include those in your handout/presentation, also.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>
9	<p><u>I'd also like to see a summary of how this compares to the Enterprise Risk Management Framework (ERM), because that is where we should be headed in the future.</u> Include that in your handout, too.</p> <p>Be prepared to go over your handout with the group and explain/demonstrate where you got your information at our next meeting on February 8th.</p>

Table 2	
Questions related to the value of the learning experience: (Learning Goals 1 through 4)	Responses
This project enhanced my understanding of the elements of the COSO Framework.	98% agreed or strongly agreed
I have a better understanding of how the COSO Framework might be applied in a real-world situation.	95% agreed or strongly agreed
This assignment made me feel more confident in my ability to research COSO-related questions that might arise.	98% agreed or strongly agreed
I believe accountants and auditors might find the information on the COSO website useful in the “real-world.”	93% agreed or strongly agreed
It was easy to find what I was looking for in the COSO website.	77% agreed or strongly agreed
This assignment was a useful review of the COSO framework.	94% agreed or strongly agreed
I have a better understanding of where to find COSO material after completing this assignment.	100% agreed or strongly agreed
I found what I was looking for in the COSO website.	96% agreed or strongly agreed
The COSO website felt like “information overload.”	45% disagreed or strongly disagreed
This assignment did not improve my understanding of where to find COSO material.	97% disagreed or strongly disagreed
I do not feel I understand the elements of the COSO framework any better after completing this assignment.	89% disagreed or strongly disagreed
I do not believe my ability to research questions related to COSO was improved by this assignment.	81% disagreed or strongly disagreed
I have no interest in learning anything else about this material.	63% disagreed or strongly disagreed

Table 3	
Other questions on student attitudes toward the project: (Learning Goals 5 through 7)	Responses
Simulation (hands-on with simulated problems) is a valuable way to learn about something.	98% agreed or strongly agreed
I recommend using this project in future auditing classes.	82% agreed or strongly agreed
I was provided sufficient time to complete the project.	98% agreed or strongly agreed
I preferred this assignment over straight lecture on the material.	66% agreed or strongly agreed
I enjoyed working on this project.	59% agreed or strongly agreed
I enjoy team-based projects.	48% agreed or strongly agreed
This project helped me learn to be a better writer of business material.	57% neither agree nor disagree
I do not like to learn in an environment that requires working with a team of students.	50% disagreed or strongly disagreed
I would have preferred straight lecture on the material over this particular assignment.	62% disagreed or strongly disagreed

Table 4 – Open-ended Responses

- Enjoyed the project. Liked the group aspect of it, too.
- It was a very simple and straightforward assignment. It needs to be a little more challenging. I do not know how though, but it was too easy. I do think students need to look at this website because I would have never used it if we did not look at it for this class. Moreover, I would not have had access.
- I thought this was a good assignment to get us familiar with the COSO website. I did indeed find the website to [sic] a bit of information overload before completing this assignment and after I felt much more comfortable with it. It was also good to work through this assignment with a team member.
- I liked the part about making it a handout, however, in the future, I think the class should submit their handouts to a class-wide discussion board, so that everyone can go back on their own time and review the information that other groups found.
- Maybe researching another topic within the group would be helpful. That would give a bit more to present on.
- The COSO handout on internal controls that each group had to make was a good way of summarizing the information collected. However, it might be more beneficial if the group has to explain the information they found to the rest of the class, to put the information in a powerpoint slideshow with screenshots of each page they used from the COSO website.
- I think it may have been helpful had we gone through the sections prior to the assignment so that we had a little better understanding of how to navigate the site.
- I believe this assignment could be assigned to only one person instead of a group.
- I enjoy team based projects, but not this one... Perhaps the collaboration could happen during scheduled class sessions, instead of [sic] independantly.

Figure 1 – COSO Assignment Grading Rubric

Name				
COSO Assignment				
Description				
Rubric Detail				
Criteria	Levels of Achievement			
	Novice	Needs improvement	Competent	Proficient
Internal Control Primer Weight 33.00%	0 % No handout is submitted	50 % Handout is vague, incomplete or inaccurate in significant ways	75 % Handout is vague, incomplete or inaccurate in relatively minor ways	100 % Handout succinctly summarizes the concept of internal controls, including the 5 components
Research Question Weight 34.00%	0 % No handout is submitted	50 % Handout is vague, incomplete or inaccurate in significant ways	75 % Handout is vague, incomplete or inaccurate in relatively minor ways	100 % Handout succinctly summarizes the results of the research and is technically correct
Presentation Weight 33.00%	0 % No presentation is made	50 % Presentation is incomplete, inaccurate, illegible in significant ways or presenters fail to include research protocol	75 % Presentation is incomplete, inaccurate, illegible in minor ways or presenters fail to fully explain research protocol	100 % Presentation is complete and accurate, including description of research protocol

