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What is the SEC Looking For in Your Internal Control Environment?

[CYBERSECURITY, PUBLIC COMPANIES](#)

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At the recent AICPA year-end conference, SEC staff members indicated that they will be looking more closely at internal controls for this year end including control considerations for new accounting pronouncements, the evaluation of deficiencies, the overall impact of a deficiency and cyber security. With the much talked about revenue recognition standard (ASC 606) becoming effective for December 31, 2018 fiscal year-end companies and the new lease standard (ASC 842) going into effect in the following year, the SEC will consider transition controls, as well as the addition of daily controls designed to ensure revenue and leases are appropriately accounted for on an on-going basis. In addition to the new accounting pronouncements, the SEC staff indicated that management should really consider the severity of control deficiencies and the severity should be considered through the eyes of a “prudent official.” While management is evaluating a deficiency, they should also consider the impact of the deficiency on not only the specific area to which the control pertains, but also consider if any other financial statement areas could be impacted. Finally, how can we talk about accounting or internal controls without considering “cyber.” The SEC staff noted that nearly all companies are impacted by potential cyber attacks and this risk should be included in management’s risk assessment. The SEC wants to ensure that public companies consider the risk of a material weakness to their financial statements and, as such, consider the controls implemented to mitigate this risk.

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