

**COSO**



The Committee of Sponsoring Organizations of the Treadway Commission

# An Update of COSO's Internal Control–Integrated Framework

December 2011



## Internal Control-Integrated Framework

- First published in 1992
- Gained wide acceptance following financial control failures of early 2000's
- Most widely used framework in the US
- Also widely used around the world



Original COSO Cube



## Key Concepts – Timeless

- A process
- Effected by people
- Provides reasonable assurance
- Geared to achievement of objectives related to (1)operations, (2)compliance and (3)financial reporting
- Five components:
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information and Communication
  - Monitoring



## Why Update What Works

*ICIF works well today*

COSO's Internal Control – Integrated Framework (1992 Edition)

*Refresh objectives*

Address significant changes to the business environment and associated risks

Codify criteria to use in the development and assessment of systems of internal control

Increase focus on operations, compliance and non-financial reporting objectives

*Enhancements*

Updated, enhanced and clarified *Framework*

Principles  
**Attributes**

Expanded internal and non-financial reporting guidance

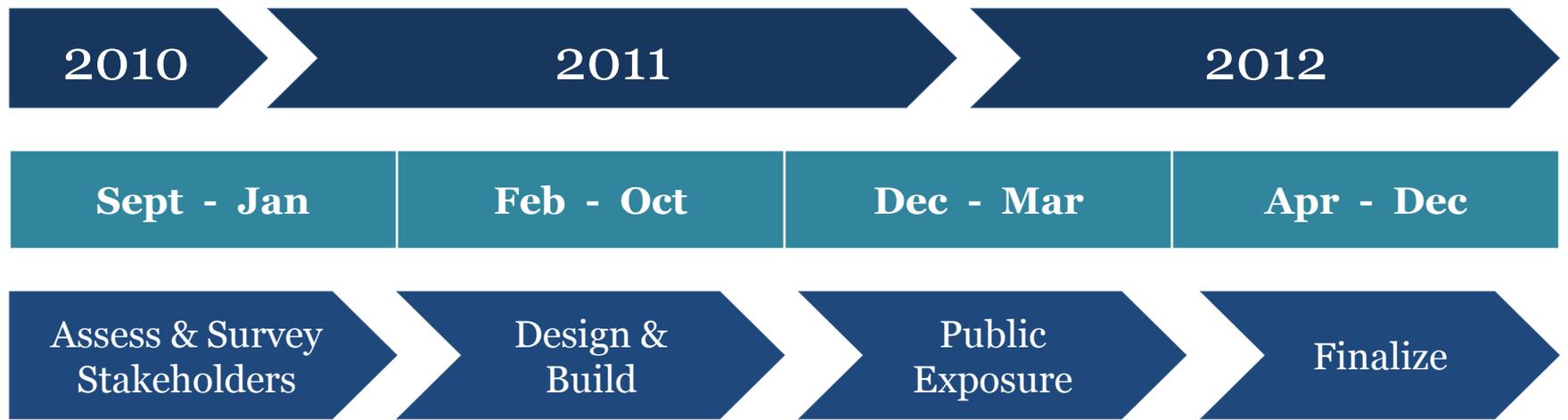
*ICIF will work better tomorrow*

COSO's *Internal Control – Integrated Framework* (Draft, 2012 Edition)



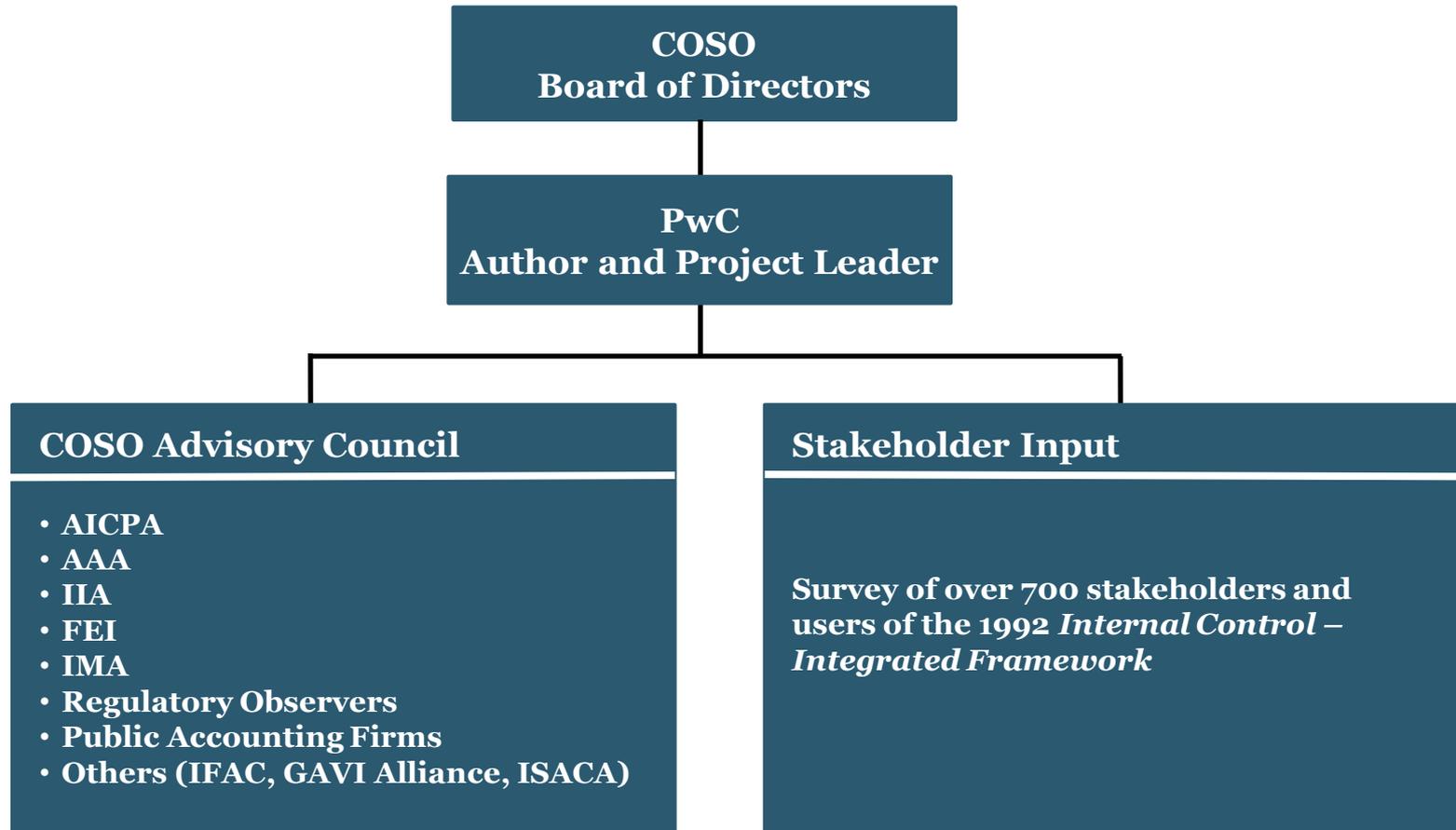


## Project Plan & Timetable





## Project Participants





## Obtaining Input: Survey of Stakeholders

- January 4th to September 1st of 2011
- Over 700 responses
- Responses came from wide range of organizations and individuals
  - Large, small and non-profit organizations well represented
  - 1 in 4 respondents were international (27%)
  - The majority of respondents has been using the 1992 Framework for over 5 years
- Overall, a large majority of respondents support updating, but not a major overhaul of the 1992 Framework



## Summary of Updates

### What's changed...

The experienced reader will find much familiar in the updated *Framework*, which builds on what has proven effective in the original version.

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#### What is not changing...

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1. Definition of internal control
2. Five components of internal control
3. The fundamental criteria used to assess effectiveness of systems of internal control
4. Use of judgment in evaluating the effectiveness of systems of internal control



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#### What is changing...

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1. Codification of principles with universal application for use in developing and evaluating the effectiveness of systems of internal control
2. Expanded financial reporting objective to address internal and external, financial and non-financial reporting objectives
3. Increased focus on operations, compliance and non-financial reporting objectives based on user input



## Summary of Updates

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*A changing business environment... Drives updates to the Framework...*

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Expectations for governance oversight

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Globalization of markets and operations

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Changes in business models

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Demands and complexity of rules, regulations and standards

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Expectations for competencies and accountabilities

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Use and reliance on evolving technology

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Expectations for preventing and detecting fraud

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Updated COSO Cube



## Summary of Updates

Codification of 17 principles embedded in the original Framework

### Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

### Risk Assessment

6. Specifies relevant objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

### Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

### Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

### Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies



## Value Proposition

Enhance performance with greater agility, confidence and clarity

The updated *Framework* better supports efforts to design and adapt systems of internal control:

- **Agility** – Adapt to increasing complexity and pace of change
- **Confidence** - Mitigate risks to achieve important objectives
- **Clarity** – Provide reliable information to support sound decision making



## Benefits of the Updated *Framework*

- Improve governance
- Expand use beyond financial reporting
- Improve quality of risk assessment
- Strengthen anti-fraud efforts
- Adapt controls to changing business needs
- Greater applicability for various business models





# Public Exposure Process

Primary objective	Obtain feedback about whether the updated <i>Framework</i> will have a positive impact on achieving effective internal control over operations, reporting and compliance objectives
When to Comment	December 19, 2011 to March 31, 2012
How to access	<a href="http://www.ic.coso.org">www.ic.coso.org</a>
Who can respond	Any interested party wishing to express a point of view relevant to the updated <i>Framework</i>
How to Respond	<ul style="list-style-type: none"><li>• Answer the questions and/or</li><li>• Provide additional feedback as you see appropriate at <a href="http://www.ic.coso.org">www.ic.coso.org</a></li></ul>
Access to public written comments	Available online to December 31, 2012



# Public Exposure Process

Specific areas to provide feedback and to assist respondents in developing view points

Topical Areas	Specific Areas to Provide or Consider in Your Commentary
1. General Background Information	<ul style="list-style-type: none"> <li>• Please provide information about your company or organization</li> </ul>
2. Overall Impression of the updated <i>Framework</i> (Survey format scale of 1 – 5)	<ul style="list-style-type: none"> <li>• Internal consistency and logic of the updated <i>Framework</i></li> <li>• Understandability and ease of use</li> <li>• Applicability to various types of organizations</li> <li>• Impact or burden on regulatory reporting</li> </ul>
3. Specific areas of interest (Survey format scale of 1 – 5)	<ul style="list-style-type: none"> <li>• Completeness and appropriateness of the 17 Principles and associated Attributes</li> <li>• The requirement for all 17 Principles to be present and functioning to have effective internal control</li> <li>• Appropriateness of expanding the reporting objective category beyond financial reporting</li> </ul>
4. Summary	<ul style="list-style-type: none"> <li>• General comments on any topic of interest relevant to the updated <i>Framework</i></li> </ul>



## Guidance on Internal Control over External Financial Reporting (ICEFR)–Published Financial Statements

- A supplemental document to the updated *Framework*
- Currently scheduled for public exposure in the spring of 2012
- Provides guidance in applying the updated *Framework* to this sub-category of the Reporting objective
- Includes approaches and examples to assist management in designing and implementing internal control over external financial reporting
- A draft of the guidance will be accessible for information and reference to respondents during the public exposure of the updated *Framework* at [www.ic.coso.org](http://www.ic.coso.org)
- Guidance will not replace or modify the updated *Framework*



## Questions?

- Please contact [icif@us.pwc.com](mailto:icif@us.pwc.com)