

2013 UPDATE

COSO INTERNAL CONTROL INTEGRATED FRAMEWORK



OBJECTIVES

- Background
- History
- What's New?
- What's Not?
- What's it Mean?
- What's Next?



BACKGROUND

COSO has released an updated version of its *Internal Control – Integrated Framework*



- Intended to make the framework more relevant for investors and shareholders
- Focused on enhancing control structures to deal with rapid changes in business environment

HISTORY

COSO

- Committee of Sponsoring Organizations of the Treadway Commission
- Formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting (the Treadway Commission)
- Created to inspect, analyze, and make recommendations on fraudulent corporate financial reporting
- Five “sponsoring organizations”



HISTORY

Sponsoring Organizations are:

- AICPA
- American Accounting Association (AAA)
- Financial Executives International (FEI)
- Institute of Internal Auditors (IIA)
- Institute of Management Accountants (IMA)

WHAT ISN'T NEW?

Definition of Internal Control:

“Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”



WHAT ISN'T NEW?

Three Categories of Objectives:

- Operations Objectives – effective and efficient operations, performance goals, and safeguarding of assets
- Reporting Objectives – internal and external reporting
- Compliance Objectives – adherence to laws and regulations



*The next level
of service*

WHAT ISN'T NEW?

Five Components of Internal Control:

Control Environment

Risk Assessment

Control Activities

Information & Communications

Monitoring Activities

Where does IT fit?

WHAT'S NEW?

- The “cube” has been “inverted”:



WHAT'S NEW?

OLD



WHAT'S NEW?

NEW!!!



WHAT'S NEW?

OLD



NEW!!!



WHAT *ELSE* IS NEW?

- “Fundamental Concepts” are now “Principles”
 - 17 Principles across the 5 components
- In order for a system of control to be deemed “effective”:
 - All 17 principles must be “present and functioning”
 - All 5 components must operate together in an integrated manner
- Each Principle contains multiple points of focus
- Financial Reporting has been expanded to include non-financial and internal reporting



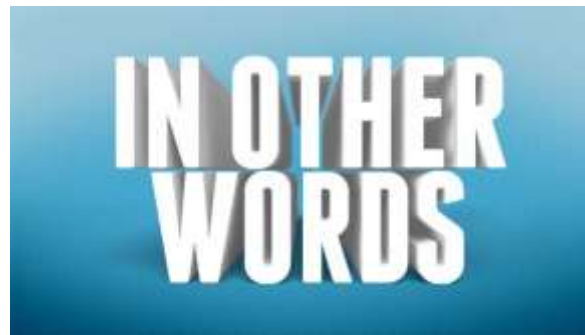
WHAT'S IT MEAN?

- What does “present and functioning” really mean?
 - Present equates to the existence of a control, i.e. is it active?
 - Inference toward effective design
 - Functioning equates to operating effectiveness, i.e. it has been tested



WHAT'S IT MEAN?

- How should management determine if all components operate together?
 - “Management can demonstrate that components operate together when they are present and functioning and internal control deficiencies aggregated across components do not result in the determination that one or more major deficiencies exist.”



- “Since I’ve never had a significant deficiency, my control components operate together.”

WHAT *ELSE* IS NEW?

- Provides guidance on an entity's use of and reliance on technology
- Renewed focus on preventing and detecting fraud
- Outlines expectations for effective management of third party vendors and service providers
- Recognizes the impact of globalization and greater complexities of business



WHAT'S IT MEAN?

- Expansion of financial reporting objectives to include non-financial and internal reporting
 - Four types of reporting:
 - Internal financial
 - Internal non-financial
 - External financial
 - External non-financial
- Control environment should include all four types



Control Environment

- Demonstrates commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes structure, authority, and responsibility
- Demonstrates commitment to competence
- Enforces accountability

Risk Assessment

- Specifies suitable objectives
- Identifies and analyzes risk
- Assesses fraud risk
- Identifies and analyzes significant change

Control Activities

- Selects and develops control activities
- Selects and develops general controls over technology
- Deploys through policies and procedures

THE PRINCIPLES

Information & Communications

- Uses relevant information
- Communicates internally
 - Financial
 - Non-financial
- Communicates externally
 - Financial
 - Non-financial

THE PRINCIPLES

Monitoring Activities

- Conducts ongoing and/or separate evaluations
- Evaluates and communicates deficiencies

THE POINTS OF FOCUS

Monitoring Activities

Principle	Points of Focus
Conducts ongoing and/or separate evaluations of internal control	Considers a mix of ongoing and separate evaluations
	Considers rate of change
	Establishes baseline understanding
	Uses knowledgeable personnel
	Integrates with business processes
	Adjusts scope and frequency
	Evaluates objectively
Evaluates and communicates internal control deficiencies timely to stakeholders	Assesses results
	Communicates deficiencies to parties responsible for corrective action, to senior management, and to board of directors
	Monitors corrective actions

THE POINTS OF FOCUS

Control Activities

Principle	Points of Focus
Selects and develops general controls over technology	Determines Dependency between the Use of Technology in Business Processes and Technology General Controls
	Establishes Relevant Technology Infrastructure Control Activities
	Establishes Relevant Security Management Process Control Activities
	Establishes Relevant Technology Acquisition, Development, and Maintenance Process Control Activities

WHAT'S NEXT?

- Original framework will expire after December 15, 2014
 - Start preparing now
 - External auditors and PCAOB will likely begin enforcement
- FYE December companies, 2013 will be the last year for SOX ICFR under old version



WHAT'S NEXT?

- Don't forget.....
 - Increased emphasis on:
 - Information technology
 - Third party vendors
 - Prevention and detection of fraud



WHAT'S NEXT?

- So what about Information Technology?



WHAT'S NEXT?

The principles presented in the *Framework* do not change with the application of technology. This is not to say that technology does not change the internal control landscape. Certainly, it affects how an organization designs, implements, and conducts internal control, considering the greater availability of information and the use of automated procedures, but the same principles remain suitable and relevant.⁸

⁸ As this is a principles-based framework and because technology is continually evolving, the *Framework* does not address specific technologies, such as cloud computing or social media.

THE POINTS OF FOCUS

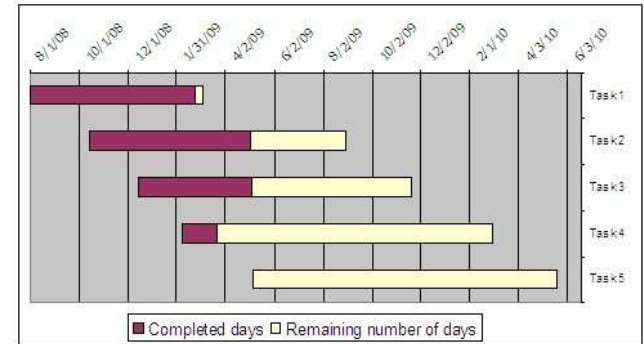
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COBIT?

WHAT'S NEXT?

- Map your current controls and documentation to the new framework
- Perform a gap analysis
- Develop a transition plan
 - Consider centralized PMO
 - Ensure top-down approach
 - Identify roles and responsibilities
 - Facilitate awareness and perform training
- Remediate gaps
- Communicate with stakeholders





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