The Evolution of the COSO Internal Control – Integrated Framework

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Agenda

• COSO Internal Control - Integrated Framework
• Five Components of Internal Control
• Why is an internal control framework important
• History of framework
• Necessity of the update
• Compare and contrast
• Value
COSO
Internal Control –
Integrated Framework
Five Components of Internal Control

1.0

- Monitoring
- Control Activities
- Risk Assessment
- Control Environment

2.0

- Operations
- Reporting
- Compliance

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring Activities
Why is an Internal Control Framework Important?

- Risk
- Improved Organization Performance
- Obtain Key Objectives
What are the 5 components of Internal Control?
History of the Framework

• 1992

• 2013

• Supporting documents
1992

- Original document

- Five components & three objectives of business
  - Operations
  - Compliance
  - Reporting
2013

• New integrated framework document released

• Included 17 codified principles, 77 points of focus, 3 supporting documents

• Transition date: December 15, 2014
Supporting Documents

• Executive Summary

• Illustrative Tools for Assessing Effectiveness of System of Internal Controls

• Compendium of Approaches and Examples
Necessity of the Update

• Codified principles
• Increased globalization and automation of enterprises
• Government regulations
Which one of these were **NOT** key objectives enterprises seek to achieve?

A. Governance  
B. Compliance  
C. Operations  
D. Reporting
Compare and Contrast

• Four topics not being changed

• Four topics being changed
Four Topics Not Changed

• Definition of Internal Control
• Five components of internal control
• Criteria used to assess effectiveness
• Use of judgment to evaluate effectiveness
Definition of Internal Control

• Provide a standard

• Assess entities control systems

• Determine how to improve systems
Five Components of Internal Control
Criteria Used to Assess Effectiveness

• Are the five components present and functioning?

• Are the five components working together in an integrated manner?
Use of Judgment to Evaluate Effectiveness

- Responsibility of management
- Design
- Implement
- Conduct
Four Topics Being Changed

• Update to reflect current business conditions

• Codifying principles and Points of Focus

• Expanding financial reporting

• Increased focus on objectives
Update to Reflect Current Business Conditions

• New technologies
• New opportunities
• New risks
Codifying Principles & Points of Focus

- 17 Principles
- Underlying Points of Focus
Expanding Financial Reporting

• Internal financial reporting

• External non-financial reporting
Increased Focus on Objectives

• Operations
• Compliance
• Reporting
How many codified principles for the COSO Framework are there?

• 17
• 40
• 10
• 100
Value Added and How to Adapt

• Implementation of the 17 principles

• Changes in business
Implementation of the Principles

• Guide for entities

• Points of focus
Tips for Adapting to the New Framework

• Educating Your Employees

• Management, Internal Policy Setters, and Internal Audit

• How has your experience been?
Summary

• Why is an internal control framework important

• Necessity of the update

• Increased value
Q&A
References


