



The Committee of Sponsoring Organizations of the Treadway Commission

## COSO Internal Control – Integrated Framework update

### INTOSAI – Subcommittee on Internal Control Standards

Cees Klumper RA MBA CIA

- Member of the COSO Advisory Council
- Chief Risk Officer of the Global Fund to Fight AIDS, Tuberculosis and Malaria
- Director Internal Audit of the Global Alliance for Vaccines and Immunisation



The Committee of Sponsoring Organizations of the Treadway Commission

### About COSO

- Formed in 1985 to sponsor a Commission to examine fraudulent financial reporting
- A joint initiative of five private sector organizations
- Sponsors:
  - American Accounting Association (AAA)
  - American Institute of Certified Public Accountants
  - Financial Executives International
  - Institute of Management Accountants
  - The Institute of Internal Auditors





The Committee of Sponsoring Organizations of the Treadway Commission

## Mission

*“To provide **thought leadership** through the development of comprehensive frameworks and guidance on **enterprise risk management, internal control** and **fraud deterrence** designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.”*

3



The Committee of Sponsoring Organizations of the Treadway Commission

## COSO's Fundamental Principle

Good risk management and internal control are necessary for long term success of all organizations

4



The Committee of Sponsoring Organizations of the Treadway Commission

## Timeline

1987: Treadway Commission Report

1996: Internal Control Issues in Derivatives

2004: Enterprise Risk Management Framework



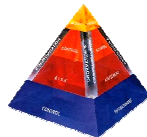
2010: Fraud Study II - Fraudulent Financial Reporting: 1998-2007

2009: Guidance on Monitoring Internal Control Systems



1999: Fraud Study I - Fraudulent Financial Reporting: 1987-1997

1992: Internal Control Framework



2006: Guidance for Smaller Businesses on Internal Control over Financial Reporting



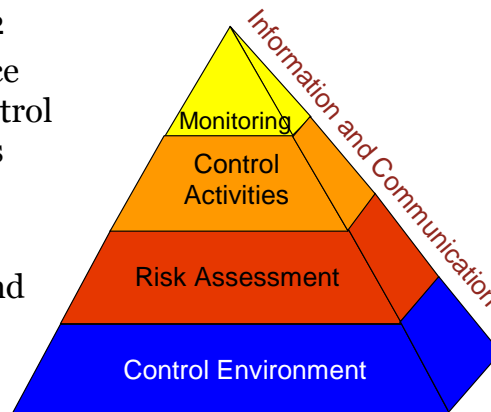
2010-2011: Recent ERM thought papers on current issues



The Committee of Sponsoring Organizations of the Treadway Commission

## COSO Internal Control 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



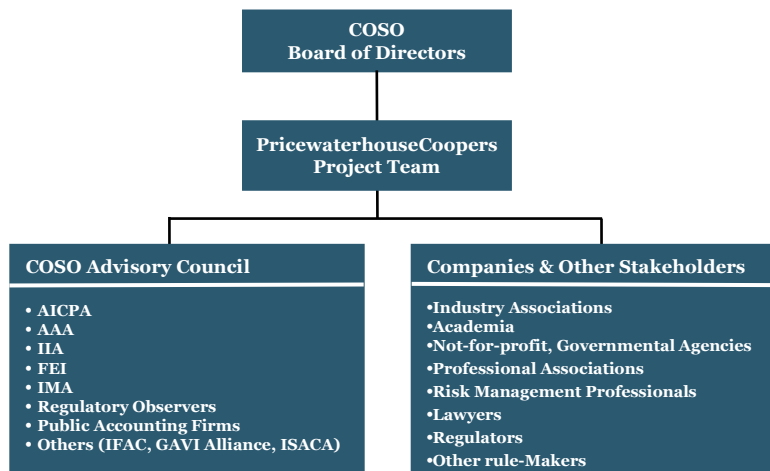


## Key Concepts – Timeless

- A process, effected by people
- ... that provides reasonable assurance
- ... about achievement of objectives
- Five components:
  1. Control environment
  2. Risk assessment
  3. Control Activities
  4. Monitoring
  5. Information and communication



## The update - who is involved



## Overview of Project Plan & Timetable



## Obtaining Input: ICIF Survey of Stakeholders

- Over 700 responses
- From a wide range of organizations and individuals
  - Large, small and non-profit organizations well represented
  - 1 in 4 respondents from outside the United States (27%)
  - Most respondents have been using the Framework for over 5 years
- Overall, a large majority of respondents support updating, but not a major overhaul in the Framework



## Areas of ICIF Update

### Key Themes

1. Reflect implication of increased use of technology and greater complexity of operational environment
2. Incorporate lessons learned from SOX and cost/benefit considerations
3. Capture increased ethics, compliance and anti-fraud expectations
4. Broaden the scope of “reporting” beyond “external financial reporting”
5. Enhance the concept of risk oversight and role of risk assessment
6. Reflect expanded governance roles in organizations



## Areas of ICIF Update Envisioned (cont.)

### Key Themes

7. Clarify and simplify language
8. Apply a more principles-based approach and provide basis for evaluating control effectiveness
9. Increase practical guidance to supplement the conceptual framework
10. Balance discussion of financial reporting with operations and compliance
11. Discuss performance management and incentives
12. Reduce US-centric perception of the Framework



## Making it easy to apply in practice

5 Components	17 Principles	82 Attributes
1. 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. Establishes accountability	21
2. Risk Assessment	6. Specifies relevant objectives 7. Identifies and assesses risk 8. Identifies and assesses significant change 9. Assesses fraud risk	19
3. Control Activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures	16
4. Information & Communication	13. Generates relevant information 14. Communicates internally 15. Communicates externally	15
5. Monitoring Activities	16. Conducts ongoing and, possibly, separate evaluations 17. Evaluates and communicates deficiencies	11



## In addition to the Internal Control – Integrated Framework

- *Compendium of Approaches and Examples for Internal Control over Financial Reporting (2013)*
- *ICIF Evaluation Tools (2013)*
  
- *Monitoring Guidance (2009)*
- *ERM Framework (2004)*



The Committee of Sponsoring Organizations of the Treadway Commission

## Food for thought ...

- INTOSAI comment letter submitted last month
- Decision not to combine ERM and Internal Control frameworks
- A good framework is getting better ... but what about the application in practice?
- What would ideal cooperation with COSO look like?