COSO Internal Control – Integrated Framework update

INTOSAI – Subcommittee on Internal Control Standards

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• 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

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
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.”

COSO’s Fundamental Principle

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

- **1987:** Treadway Commission Report
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- **1992:** Internal Control Issues in Derivatives
- **1996:** Internal Control Framework
- **1999:** Fraud Study I - Fraudulent Financial Reporting: 1987-1997
- **2004:** Enterprise Risk Management Framework
- **2009:** Guidance on Monitoring Internal Control Systems
- **2010:** Fraud Study II - Fraudulent Financial Reporting: 1998-2007
- **2010-2011:** Recent ERM thought papers on current issues

**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
Overview of Project Plan & Timetable

<table>
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<tr>
<th>2010</th>
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<th>2012</th>
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<td>Sept – Jan</td>
<td>Feb - Oct</td>
<td>Dec - March</td>
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<td>Assess and Envision</td>
<td>Design &amp; Build</td>
<td>Public Exposure</td>
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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

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

2. Risk Assessment
   6. Specifies relevant objectives
   7. Identifies and assesses risk
   8. Identifies and assesses significant change
   9. Assesses fraud risk

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

4. Information & Communication
   13. Generates relevant information
   14. Communicates internally
   15. Communicates externally

5. Monitoring Activities
   16. Conducts ongoing and, possibly, separate evaluations
   17. Evaluates and communicates deficiencies

17 Principles

82 Attributes

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)*
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?