



COSO Framework Update Webcast

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Today's presenters



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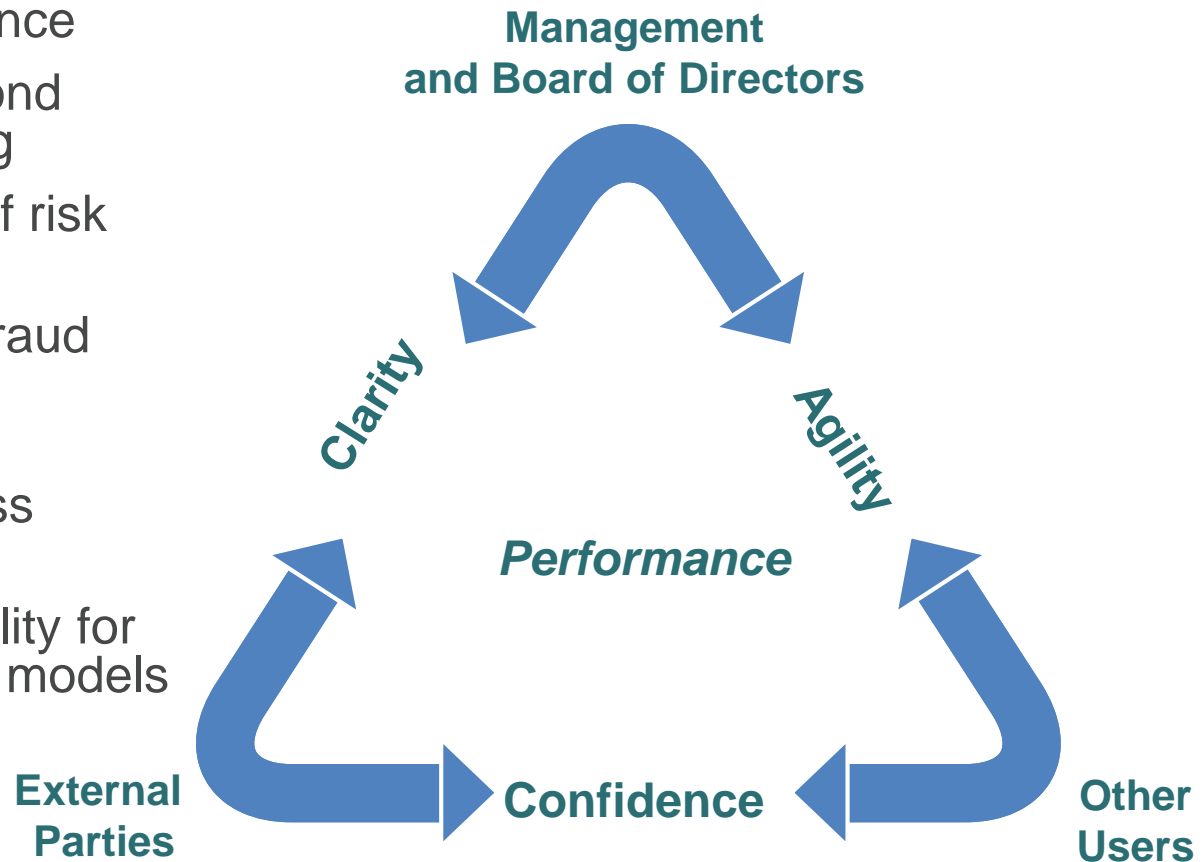
The update process

The update process

- Why is the COSO Framework being updated?
 - The existing framework was issued in 1992
 - Updated to remain relevant and useful
- Is this a “start over” or a “refresh”?
 - Principles based
 - Increased guidance and examples

Intended benefits of 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



Transition

- Updated Framework was issued May 14, 2013
- COSO will continue to make available the original framework during the transition period extending to December 15, 2014, after which time COSO will consider it as having been superseded
- Early adoption is permitted
- Updated Framework supersedes existing Framework and *Internal Control over Financial Reporting – Guidance for Smaller Public Companies*

Does this only impact SEC registrants?

- No – it will impact all companies that use COSO
- SEC registrants will likely have most significant impact
 - Certification
 - Will need to explicitly state which framework is being used during the period of transition (i.e., 1992 Framework or 2013 Framework)
 - SOX Documentation

What is not changing

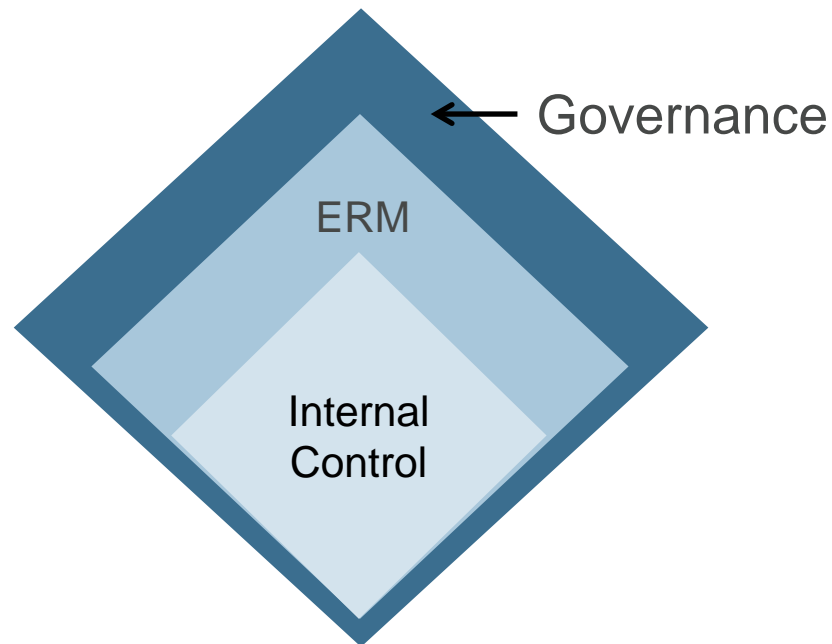
What is not changing

- Objective setting foundation
- Definition of internal control
- The five components of internal control
 1. Control Environment
 2. Risk Assessment
 3. Control Activities
 4. Information & Communication
 5. Monitoring Activities



What is not changing (continued)

- *COSO's Enterprise Risk Management – Integrated Framework*
 - The two frameworks remain distinct



What is changing

What is changing

Broadening of focus from “Financial Reporting” to “Reporting”



Aligns organization structure with ERM Framework

What is changing (continued)

- Addition of 17 principles that are necessary for effective internal control
- Describes 81 Points of Focus that are typically important characteristics of the principles
- Significant documentation considerations in transition
- Other changes to components

The 17 principles and changes to the five components

Effective internal control

- Effective internal control provides reasonable assurance regarding the achievement of objectives and requires that:
 - Each component and each relevant principle is present and functioning
 - The five components are operating together in an integrated manner

Internal control principles

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 suitable 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

Control environment

Control environment

The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.



Newly defined principles

1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence of management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Control environment – changes

- Five principles outline what is commonly called the “tone at the top”
- Expanded discussion and consideration of governance roles and notion of risk oversight
- Includes considerations for internal control in complex business environments
 - Outsourced service providers
 - Business partners
 - External partners

Risk assessment

Risk assessment

A dynamic and iterative process for identifying and assessing risk to the achievement of objectives.



Newly defined principles

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control.

Risk assessment – changes

- Principle specifically focused on consideration of fraud
- Clarifying risk assessment includes
 - Risk identification
 - Risk analysis
 - Risk response
- Expands discussion on management's need to understand changes in internal and external factors

Control activities

Control activities

The actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.



Newly defined principles

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Control activities – changes

- Broadening discussion of technology
- Expanded discussion of automated control activities and general controls over technology
- Clarifies that control activities are actions established by policies and procedures not the policies and procedures themselves

Information and communication

Information and communication

Communication is the continual, iterative process of providing, sharing, and obtaining necessary information.

Internal communication is the means by which information is disseminated throughout the organization.

External communication enables inbound communication and provides external information.



Newly defined principles

13. The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

Information and communication – changes

- Emphasizes importance of quality of information
- Expands on reliability and protection of information
- Reflects impacts of technology on speed, means, and quality of flow of information
- Emphasizes importance of communication outside the entity (such as third-party service providers)

Monitoring activities

Monitoring activities

Ongoing evaluations, separate evaluations, or some combination of the two used to ascertain whether each of the five components of internal control are present and functioning.



Newly defined principles

16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Monitoring activities - changes

- Clarifies that monitoring activities apply to all components of the Framework, not only control activities
- Includes two main categories of monitoring activities
 - Ongoing evaluations
 - Separate evaluations
- Expands discussion of technology and external service providers

Scalability

- Appendix C of the Framework provides considerations for smaller entities and governments
- Key consideration factors are provided for:
 - Segregation of duties
 - Management override
 - Board of directors
 - Information technology
 - Monitoring activities

Next steps – internally

- Identify the appropriate individuals in your organization to be involved in the transition
 - Personnel familiar with your IT environment
 - Third party vendors/outsourced service providers
 - Personnel involved in anti-fraud programs
- Map your existing controls to the new Framework
- Prepare a gap analysis for the principles and points of focus
- Develop a plan to remediate identified gaps

Next steps – with your auditor

- Present your organization's plan to map to the new Framework and assess gaps to your external auditor
- Present results of your gap analysis and remediation plan to your external auditor
- Collaborate on the impacts of any control changes on the current year audit engagement as well as changes for the year of adoption

Resources

- McGladrey Whitepaper, *An Overview of COSO's 2013 Internal Control-Integrated Framework*
<http://mcgladrey.com/Insights/2013-COSO-Framework-Update-webcast-and-whitepaper>
- COSO Resources
 - *Internal Control-Integrated Framework*
 - Executive summary
 - Framework and Appendices
 - Illustrative tools for assessing effectiveness of a system of internal control
 - *Internal Control over External Financial Reporting, a Compendium of Approaches and Examples*
www.coso.org

Questions?

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