



THE OHIO
SOCIETY
OF CPAs

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Youngstown State University

YSU CPE Day

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New COSO Integrated Framework

Session #013

Upcoming Events

Cleveland Spring CPE Conference – May 23, 2014– Course #46375

A whole new CPE season starts with the beginning of spring, and our annual Cleveland Spring CPE Day Conference is a fantastic way to get all the latest news you can use on a variety of topics important to you and your profession. There is so much happening with new regulations, the new health care law and the competitive environment continues to be a strain on all businesses, and with the ability to get information from virtually anywhere, it's hard trying to cut through it all to get to what you need to know. Join us at the Cleveland Spring CPE Day conference and let us help make that easier by providing you with the information you need, from the experts you know, and the industry leaders you trust. Plus it's a great time to network with your peers and satisfy your three-hour ethics requirement. Being close to home with great topics and great speakers this event has it all.

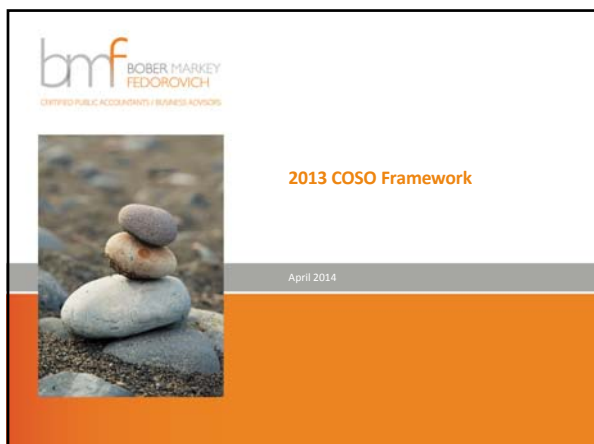
Akron Spring CPE Day– June 27, 2014 – Course #46391

Join OSCPA for one of the most popular CPE events in Northeast Ohio. The 2014 Akron Spring CPE Day conference is coming soon and it's the place to be to get information on just about anything, anytime from a variety of sources. At this conference we're going to help make that process easier by providing you with the information you need on the topics important to you and your industry. This is a great opportunity to learn from the experts and industry leaders you know and trust, plus you can satisfy your three-hour ethics requirement and network with your peers.

· Be sure to visit the Events Catalog at store.ohioscpa.com for more continuing education opportunities.

NOTICE TO READERS:

These course materials have been prepared solely for continuing education purposes. Since the subject matter has not been considered and acted upon by senior technical committees of The Ohio Society of CPAs, it does not represent an official position of the Society



2013 COSO Framework – Objectives & Agenda

- Objective: Help you better understand the changes to the new framework
- Presentation Content
 - Background and overview
 - Updates and changes
 - External auditors
 - Transition
 - Client and audit considerations


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2013 COSO Framework – Background


- The Committee of Sponsoring Organizations (COSO)
- Formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting (aka the Treadway Commission)
- Joint initiative of 5 private sector orgs / sponsors
 - American Accounting Association (AAA)
 - American Institute of Certified Public Accountants (AICPA)
 - Financial Executives International (FEI)
 - Institute of Management Accountants (IMA)
 - The Institute of Internal Auditors (IIA)

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2013 COSO Framework – Background




1992



2006




2009



2013

- First published in 1992
- Gained wide acceptance in early 2000s with passage of Sarbanes Oxley
- Most widely used internal control framework in US; widely used around the world



2013 COSO Framework – Why update what works?

Original Framework

COSO's Internal Control–Integrated Framework (1992 Edition)

Refresh Objectives

Reflect changes in business & operating environments

Expand operations and reporting objectives

Articulate principles to facilitate effective internal control

Enhancements


Updates Context

Broadens Application

Clarifies Requirements

Updated Framework

COSO's Internal Control–Integrated Framework (2013 Edition)



2013 COSO Framework – Project Participants

COSO Board of Directors


PwC Author & Project Leader

COSO Advisory Council

- AICPA
- AAA
- FEI
- IIA
- IMA
- Public Accounting Firms
- Regulatory observers (SEC, GAO, FDIC, PCAOB)
- Others (IFAC, ISACA, others)


Stakeholders

- Over 700 stakeholders in Framework responded to global survey during 2011
- Over 200 stakeholders publically commented on proposed updates to Framework during first quarter of 2012
- Over 50 stakeholders publically commented on proposed updates in last quarter of 2012




2013 COSO Framework – Project Deliverable #1 – Integrated Framework

- Consists of 3 volumes:
 - Executive Summary
 - Framework & Appendices
 - Illustrative Tools for Assessing Effectiveness of a System of Internal Control
- Sets out:
 - Definition of internal control
 - Categories of objectives
 - Components and principles of internal control
 - Requirements for effectiveness




2013 COSO Framework – Project Deliverable #2 – ICFR: A Compendium of Approaches & Examples

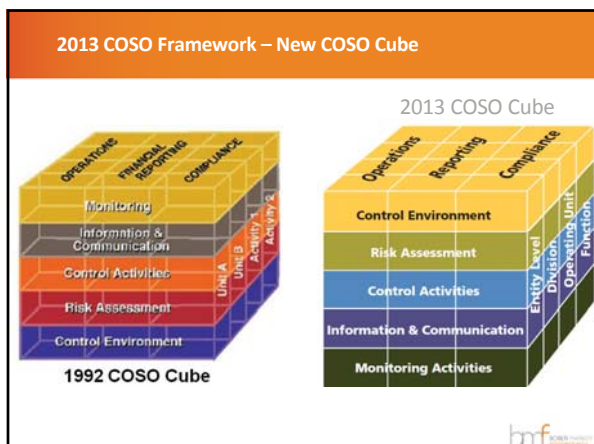
- Illustrates approaches and examples of how principles are applied in preparing financial statements
- Considers changes in business and operating environments during past two decades
- Provides examples from a variety of entities – public, private, not-for-profit and government
- Aligns with the updated COSO framework



2013 COSO Framework – Update expected to increase ease of use and broad application

What is <i>not</i> changing...	What is changing...
Core definition of internal controls	Changes in business and operating environments considered
Three categories of objectives & five components of internal controls	Operations and reporting objectives expanded
Each of the five components of internal control are required for effective control	Fundamental concepts underlying five components articulated as principles
Important role of judgment in designing, implementing & conducting internal control, and in assessing its effectiveness	Additional approaches and examples relevant to operations, compliance, and non-financial reporting objectives added





2013 COSO Framework – Update considers changes in business and operating environment

- Environmental changes have driven framework updates

Expectations for governance and oversight
Globalization of markets and operations
Changes and greater complexity in business
Demands and complexities in laws, rules, regulations and standards
Expectations for competencies and accountabilities
Use of, and reliance on, evolving technologies
Expectations relating to preventing and detecting fraud

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2013 COSO Framework – Update articulates seventeen principles of effective internal control

Control Environment	<ol style="list-style-type: none"> Demonstrates commitment to integrity and ethical values Exercises oversight responsibility Establishes structure, authority and responsibility Demonstrates commitment to competence Enforces accountability
Risk Assessment	<ol style="list-style-type: none"> Specifies suitable objectives Identifies and analyzes risk Assesses fraud risk Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none"> Selects and develops control activities Selects and develops general controls over technology Deploys through policies and procedures
Information & Communication	<ol style="list-style-type: none"> Uses relevant information Communicates internally Communicates externally
Monitoring Activities	<ol style="list-style-type: none"> Conducts ongoing and/or separate evaluations Evaluates and communicates deficiencies

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2013 COSO Framework – Points of Focus

- Update describes points of focus to assist management in designing, implementing, and maintaining internal control
- The points of focus may (or may not) be relevant and there is no requirement to perform a separate evaluation



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2013 COSO Framework – Points of Focus Example

- Principle 1. The organization demonstrates a commitment to integrity and ethical values.
- Supporting Points of Focus
 - Sets the tone at the top
 - Establishes standards of conduct
 - Evaluates adherence to standards of conduct
 - Addresses deviations in a timely manner

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2013 COSO Framework – Key Changes - Technology

- 1992 Framework included many concepts directly relevant for technologies at the time.
- Since then, technology has rapidly evolved from something embraced by the largest and most advanced companies to a foundation block of nearly all companies.
- Updated framework includes:
 - More focus on technology throughout the components and principles
 - Broad focus on the impacts of technology on internal control rather than on specific types of technology

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2013 COSO Framework – Key Changes – Governance & Outsourcing

- Governance
 - Clarifies role of board of directors & audit committees (those charged with governance) to oversee the system of internal control
 - Addresses considerations for those responsible for governance of an organization’s internal control
- Outsourcing
 - More companies are outsourcing key portions of business processes or controls to third parties
 - Expanded guidance and considerations relating to outside resources, such as third-party processors



2013 COSO Framework – Key Changes – Reporting

- Competitive pressures, advances in technology & regulatory scrutiny have contributed to increasing expectations for providing relevant information immediately
- Investors, owners, regulators & other users continue to demand more & quality reporting
- Update framework expanded the financial reporting objective to provide clarity on when internal control supports other forms of reporting (e.g., operations, compliance)



2013 COSO Framework – Key Changes – Globalization

- Borders no longer serve as significant barriers; businesses increasingly operate in a multi-location & global environment
- Complexity in laws, regulations & standards make it difficult to maintain compliance
- Advances in technology & communications increase the reach of many companies
- Update framework includes guidance & consideration for businesses operating in these arenas (e.g., principles relating to structures, reporting lines, authorities & to identification and risk assessment)



**2013 COSO Framework – Key Changes –
Transformational Change & Fraud**

- Transformational change
 - Changes in leadership, business models, new products and services, new or modified contracts, etc..., may have a significant impact on an existing system of controls
 - Update framework addresses these risks, enabling a system of internal control to adapt to change
- Fraud
 - Putting fraud in the forefront
 - Internal control structure must now address issues of fraud directly



2013 COSO Framework – Transition

- COSO encourages users to transition applications & related documentation as soon as feasible
- The updated framework will supersede the original version at the end of the transition period (December 15, 2014)
- During transition period, external reporting should disclose whether the original or updated framework was used



2013 COSO Framework – Transition

• SEC Response

The SEC Chief Accountant, Paul Beswick, recently stated that the “SEC staff plans to monitor the transition for issuers using the 1993 framework to evaluate whether and if any staff of Commission actions become necessary or appropriate at some point in the future.”

Mr. Beswick further stated that at this time, he “simply refer(s) users of the COSO framework to the statements COSO has made about their new framework and their thoughts about transition.”

Source: Deloitte IASplus.com



2013 COSO Framework – Transition

- Impact of adopting the updated framework will vary by organization
 - Does the system of internal control need to address changes in business?
 - Does the system of internal control need to be updated to address all principles?
 - Does the organization apply & interpret the original framework in the same manner as COSO?
 - Is the organization considering new opportunities to apply internal control to cover additional objectives?



2013 COSO Framework – Transition – Auditors

- Private entity – external auditor is required to obtain an understanding of the entity’s internal control, evaluate the design & determine whether controls have been implemented. Testing operating effectiveness is auditor’s discretion.
- US Public Registrant – external auditor is required to express an opinion on the effectiveness of a company’s internal control over financial reporting.




2013 COSO Framework – Transition – Auditors

- External auditors want to...
 - Understand how the organization demonstrates the principles are present & functioning
 - Any relevant principle determined not present & functioning is a “major deficiency” and results in ineffective internal control




2013 COSO Framework – Transition – Auditors

- ASB (and other auditing standard setters) will need to
 - Consider whether to update attest standards, where an auditor is engaged to provide an opinion on internal controls over financial reporting
 - Consider whether to provide guidance on how an auditor examines whether the 17 principle are present & functioning when evaluating management’s design of a system of internal control
 - AT 501 will need to confirm with & incorporate the 17 principles set out in the updated framework



2013 COSO Framework – Transition – Auditors

- External auditors can assist with various aspects of the transition to the updated framework, for example:
 - Developing awareness about board members and c-suite about COSO’s updated framework and potential implementation on the ICFR
 - Developing expertise in applying the updated framework through leadership & development
 - Perform preliminary assessment of areas where principles are (or are not) present & functioning or where documentation needs to be enhanced across the business
 - Consider new opportunities to apply internal control (e.g., other reporting, over-lapping objectives)



2013 COSO Framework – Transition – Auditors



- Coordinate transition planning & activities with external auditors to ensure you plans and their expectations are in alignment
- Communicate...
 - Necessary changes in the design or documentation of your existing system of ICFR
 - Necessary changes in overall assessment process for determining whether the system of ICFR is effective
 - Required disclosures in quarterly internal control certification documentation & forms (for public registrants)



2013 COSO Framework – Five-Step Transition

The Five-Step Transition Plan


- Step 1: Develop Awareness, Expertise & Alignment
- Step 2: Conduct Preliminary Impact Assessment
- Step 3: Facilitate Broad Awareness, Training & Comprehensive Assessment
- Step 4: Develop & Execute COSO Transition Plan for SOX Compliance
- Step 5: Drive Continuous Improvement



2013 COSO Framework – Five-Step Transition

Step 1: Develop Awareness, Expertise & Alignment


- Gain senior leadership & board alignment & support
- Build awareness & expertise
- Educate management
- Map principles to existing controls
- Identify opportunities to expand applications of internal control



2013 COSO Framework – Five-Step Transition

Step 2: Conduct Preliminary Impact Assessment


- Determine how well management understood and implemented the original version and updated it for changes in the business
- Leverage the original mapping of components to controls
- Remediate gaps



2013 COSO Framework – Five-Step Transition

Step 3: Facilitate Broad Awareness, Training & Comprehensive Assessment


- Engage broader organization
- SOX compliance efforts may occur centrally, or there may be multiple layers of assessments
- Pressure test preliminary impact assessment



2013 COSO Framework – Five-Step Transition

Step 4: Develop & Execute COSO Transition Plan for SOX Compliance


- Phase 1: Documentation & Evaluation
- Phase 2: Validation Testing & Gap Remediation
- Phase 3: External Review & Testing



2013 COSO Framework – Five-Step Transition

Step 5: Drive Continuous Improvement

- There is a difference between an adequate and a best-in-class system of internal controls



2013 COSO Framework – Resources

- Guidance, Thought Papers & Implementation Tools
 - COSO website: coso.org
- Content via the AICPA
 - E-book and paper-bound: www.cpa2biz.com
 - PDF (suited for organizations interested in licensing multiple copies): copyright@aicpa.org



2013 COSO Framework – Q&A

