

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

ASSURANCE



► SUBJECT

UPDATED COSO INTEGRATED FRAMEWORK RELEASED

► SUMMARY

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated *Internal Control-Integrated Framework (Framework) and related illustrative documents*. The *Framework*, originally published in 1992, is recognized as the leading guidance for designing, implementing and conducting internal control and assessing its effectiveness. The 2013 *Framework* is intended to:

- assist organizations of all sizes design and implement internal control in light of many changes in business and operating environments since the original issuance,
- broaden the application of internal control by organizations in addressing reporting as well as operational and compliance objectives,
- clarify the requirements for determining what constitutes effective internal control, and
- provide external stakeholders with a greater understanding of the requirements of an effective system of internal control and a greater confidence in both the board's oversight of internal controls and the organization's ability to identify, analyze, and respond to risk and changes in the business and operating environments.

Components of the *Framework* remain centered on: the control environment, risk assessment, control activities, information and communication, and monitoring activities. These components are further broken down into 17 underlying principles. COSO highlights how the *Framework* may be used by various interested parties that have different responsibilities and objectives with respect to internal control. Such interested parties include: the board of directors; senior management; other management and organization personnel; internal auditors; independent auditors; other professional organizations; and educators.

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In conjunction with the 2013 *Framework*, COSO also issued *Illustrative Tools for Assessing Effectiveness of a System of Internal Control* and the *Internal Control over External Financial Reporting (ICEFR): A Compendium of Approaches and Examples*. The *Illustrative Tools* are expected to assist users when assessing whether a system of internal control meets the requirements set forth in the updated *Framework*. The *ICEFR Compendium* is particularly relevant to those who prepare financial statements for external purposes based upon requirements set forth in the updated *Framework*.

Transition

COSO has indicated that organizations should transition their existing control evaluations and related tools and documentation to the updated 2013 *Framework* as soon as is feasible under their particular circumstances. COSO will continue to make available its original *Framework* during the transition period extending to December 15, 2014, after which time COSO will consider it as superseded by the 2013 *Framework*.

During the transition period, the COSO Board recommends that organizations reporting externally should clearly disclose whether the original *Framework* or the 2013 *Framework* was utilized. COSO will also continue to make available its publication, *Internal Control over Financial Reporting—Guidance for Smaller Public Companies* until December 15, 2014, after which time it will no longer be available.

Access to Framework and Tools

COSO publications are available for purchase in both hard copy and electronic formats on the COSO website: <http://www.coso.org/>. An Executive Summary can be downloaded by the public free of charge (see link below). In addition, the public exposure drafts of these publications, the related public comment letters, and other background information about the project will remain available on COSO's website through December 31, 2013.

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