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AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO **FLASH** REPORT ASSURANCE

SUBJECT

2013 COSO INTERNAL CONTROL INTEGRATED FRAMEWORK — UPDATE ON IMPLEMENTATION CONSIDERATIONS

SUMMARY

As communicated in prior BDO *Flash* Reports (May 2013, July 2013 and September 2013), the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated *Internal Control–Integrated Framework (2013 Framework)* and related *Illustrative Tools* and *ICEFR Compendium* which are available for purchase on their website: http://www.coso.org/. These tools include templates and scenarios that may be useful for management when using the *2013 Framework* to assess the effectiveness of a system of internal control. These prior *Flash* reports provide a summary of the more significant features of the *2013 Framework* along with a series of frequently asked questions ("FAQs") for consideration by companies as they prepare to implement the updated framework. The purpose of this *Flash* is to alert companies about certain implementation considerations as they transition to the *2013 Framework*.

While the 1992 COSO Framework (*1992 Framework*) is still in effect, COSO has indicated that the *2013 Framework* will supersede the *1992 Framework*, effective December 15, 2014. The SEC has stated that the longer an entity continues to use the *1992 Framework* beyond the transition date, the more likely they are to receive questions from the Staff about such use. As a result, many public entities have begun to evaluate the impact of the *2013 Framework* on their assessment of their system of internal control. Furthermore, during the transition period, while COSO has indicated that use of the *1992 Framework* is appropriate, COSO and the SEC Staff have indicated that management should disclose in their annual assessment which version of the framework is used.

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As a reminder, one of the more significant updates in the *2013 Framework* is the formalization of the fundamental concepts underpinning the *1992 Framework* into 17 stated principles associated with the five components of internal control. These principles, which were implicit in the original framework, are now explicitly stated and are listed in BDO's July 2013 *Flash* report. It is important to note that the *2013 Framework* does not change the objective of internal control over financial reporting (ICFR); it was meant to enhance the guidance to reflect current business and operating environments and to provide some structure and consistency in how the components of COSO are applied. Furthermore, points of focus are included to describe the characteristics of each principle and are provided to help management map the principles to the applicable controls, however the Framework does not require that management assess separately whether all points of focus are in place.

To begin implementing the *2013 Framework*, we recommend that management develop documentation that maps existing controls to the relevant principles to demonstrate that each principle is present and functioning. The worksheets within the *Illustrative Tools* that accompanies the *2013 Framework* may be used for this purpose, or an alternative format preferred by management may also be acceptable.

Generally, we would expect that if the *1992 Framework* was appropriately applied and an entity had an effective system of internal control under that framework, the transition to the *2013 Framework* would result in a consistent result. However, in the process of matching controls with the explicit principles laid out in the *2013 Framework*, management may identify the need for additional documentation or possible changes in controls to address gaps in the design or documentation of controls that were not previously apparent. It is also possible that management may eliminate certain control procedures and enhance others.