COSO 2013: Implementation Strategies for this New Framework

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Agenda

• COSO Overview
• Updated Internal Control-Integrated Framework
• New Areas of Focus
• Transition Plan
What is COSO?

- Committee of Sponsoring Organizations of the Treadway Commission (formed in 1985)
  - Sponsoring Organizations include – AICPA, IIA, AAA, FEI and IMA
- Responsible for the development of thought leadership and guidance for:
  - Internal Controls
  - Enterprise Risk Management
  - Fraud Deterrence
Updated Internal Control-Integrated Framework

Why the change/update?

• 20-year old framework

• Business and operating environments have changed
  - More technology driven
  - More complex
  - More global

• Stakeholders are more engaged and want greater transparency and accountability
Updated Internal Control-Integrated Framework

**Why the change/update?**

- To better support efforts to design and adapt systems of internal control
  - **Agility** – adapt to increasing complexity and pace of change
  - **Confidence** – mitigate risks to achieve important objectives
  - **Clarity** – provide reliable information to support sound decisions
# Updated Internal Control-Integrated Framework

**What has changed:**

The updated framework builds upon the original version.

<table>
<thead>
<tr>
<th>What has not changed...</th>
<th>What has changed...</th>
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<tbody>
<tr>
<td>1. Definition of internal control</td>
<td>1. Update to reflect current conditions in business and operating environments</td>
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<tr>
<td>2. Five components of internal controls</td>
<td>2. Codify principles that support the five components of internal control</td>
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<td>3. The fundamental criteria used to assess effectiveness of systems of internal control</td>
<td>3. Expand financial reporting and non-financial reporting</td>
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<td>4. Use of judgment in evaluating the effectiveness of systems of internal control</td>
<td>4. Increase focus on operations, compliance and reporting objectives</td>
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*Source: COSO's May Update of the Internal Control-Integrated Framework*
Updated Internal Control-Integrated Framework

What has changed?

Original COSO Cube

Revised COSO Cube
## Summary of updates:

### 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 relevant 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

*Source: COSO's May Update of the Internal Control-Integrated Framework*
Updated Internal Control-Integrated Framework


• Transition will occur between now and December 15, 2014
New Areas of Focus

• Fraud Risk Assessments
• Outsourced Service Providers (OSPs)
• Information Technology
• Comprehensive Risk Assessments
New Areas of Focus

**Fraud Risk Assessments**

- Financial institutions continue to be the most frequent victims of fraudulent activities
- Common fraud schemes and stats for banks
- Sample approach:
  - Identify fraud risk factors
  - Identify fraud risks and schemes
  - Assess and prioritize fraud risks and schemes
  - Determine controls that mitigate fraud risks and assess anti-fraud controls
New Areas of Focus

Outsourced Service Providers (OSPs)

• Processes outsourced...not the risk
• Greater emphasis on how OSPs are monitored
• Vendor management focus by the regulators...not just COSO!
• Common pitfalls:
  - Management fails to evaluate exceptions noted in SOC reports
  - Lack of SOC reports obtained and no additional work performed when a SOC report is not available
  - Risk assessments (including fraud risk assessments) that do not consider risks associated with OSPs

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New Areas of Focus

**Information Technology**

- Specific points of focus related IT (see Principle 11)
- Focus on process for ensuring the quality of information
- Common pitfalls:
  - Lack of understanding regarding the source of data and/or validation of data included in reports
  - Design gaps in controls addressing the accuracy, completeness and integrity of data included in reports (e.g., spreadsheets)
New Areas of Focus

Comprehensive Risk Assessments

• Risk analysis is a dynamic process that is updated as new processes are introduced or new risks identified

• Historically, there have been separate risk assessments conducted by various functions within the bank

• COSO-2013 suggests that your risk assessment consider (“include”) the 17 principles
Transition Plan

Transition Approach (5-Step Plan):

1. Develop awareness, expertise, and alignment
2. Conduct preliminary impact assessment
3. Perform detail review of the new areas of focus
4. Develop and execute COSO transition plan for SOX compliance, including:
   - Remediation plans
   - Updated documentation and test plans
5. Communicate updates to external auditors
## Transition Plan

### Transition Timeline:

1. Develop awareness, expertise, and alignment
   - **Status:** Ongoing

2. Conduct preliminary impact assessment
   - **Status:** Complete by 6/30

3. Perform detail review of the new areas of focus
   - **Status:** Complete by 6/30

4. Develop and execute COSO transition plan for SOX compliance, including:
   - Remediation plans
     - **Status:** Complete by 9/30
   - Updated documentation and test plans
   - **Status:** Ongoing

5. Communicate updates to external auditors
   - **Status:** Ongoing
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