



The New COSO *Chris Valponi, CPA*

Is your organization utilizing COSO's Internal Control – Integrated Framework?

One of the most useful tools for a nonprofit organization's internal control function is COSO's Internal Control – Integrated Framework, which was updated in May of 2013 and officially superseded the original framework on December 15, 2014.

What is COSO's Internal Control – Integrated Framework?

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the Internal Control – Integrated Framework in 1992. This release is known as the original framework. It has been widely accepted as the framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control for all types of business entities.

Why was the framework updated?

The core concepts embedded in the original framework are still relevant today; however, the business and operating environment of organizations have changed significantly since 1992. In order for COSO's guidance to remain relevant in the context of today's business environment the framework needed to be enhanced to reflect major changes in increased complexity of business, technology and globalization.

How has the framework been enhanced?

The framework was enhanced and clarified from an overall standpoint to better the ease of use and application. A portion of the clarification related to taking fundamental concepts embedded in the text of the original framework that may not have been evident to users and formalizing them into 17 clear cut principles. The framework was also updated to capture and address changes in the business environment related to the following topics:

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

What are the key components of the new framework?

The framework still retains the 5 integrated components of internal control as defined:

- Control Environment – The set of standards, processes and procedures, and structure that provide the basis for carrying out internal control across an organization

- Risk Assessment – A dynamic and ongoing process for identifying and assessing risks to an organization’s ability to achieve its objectives
- Control Activities – The actions established through policies and procedures that help to ensure that management’s directives to mitigate risks to the organizations achievement of its goals are carried out.
- Information and Communication – Management’s ability to obtain, generate, and use relevant information from both internal and external sources to support the internal control function and the ability to communicate such information.
- Monitoring – On going evaluations as to whether internal controls are in place and operating effectively to allow the organization to achieve its goals.

Within each of the 5 components lie the 17 principles. The structure of the framework is broken down into 3 volumes intended to be aimed at the needs of various levels of involvement of members of an organization in the internal control function.

- Volume One – The Executive Summary is a high level overview of the framework intended for the board of directors and senior management.
- Volume Two – Is the substance of the framework , which provides a definition of internal control, requirements for effective internal control including the components and relevant underlying attributes and principles. This volume provides guidance for the day-to-day management of an organization to use in designing, implementing, conducting, and evaluating their organization’s internal control function.
- Volume Three – Templates, scenarios and tools that are component and principle based, which are useful in applying the frame work.

How does the framework help your organization?

The framework is an instrumental tool for members of management in any organization to first understand the concepts behind sound internal control and then to assist in the design, implementation and evaluation of their entity’s internal control function.

For more information on Internal controls including the design, implementation and evaluation or if you have questions regarding this topic, please contact a Zinner and Co. nonprofit professional.