

A Framework for Control

COSO's five components of internal control and questions too important to ignore

What is COSO?

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COSO, the Committee of Sponsoring Organizations of the Treadway Commission, is a private sector initiative established in 1985 by five financial professional associations.

Who?

Who?

- The Institute of Internal Auditors

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- The Institute of Internal Auditors
- American Institute of Certified Public Accountants

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- American Institute of Certified Public Accountants
- American Accounting Association

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- American Institute of Certified Public Accountants
- American Accounting Association
- Institute of Management Accountants
- Financial Executives Institute

Why?

Why?

COSO's goal is to improve the quality of financial reporting through a focus on corporate governance, ethical practices, and internal control.

Definition of Internal Control

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A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives.

Categories of Internal Control

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- Effectiveness and efficiency of operations

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- Effectiveness and efficiency of operations
- Reliability of financial reporting

Categories of Internal Control

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Components of Internal Control

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1. Control Environment

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2. Risk Assessment

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3. Control Activities

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3. Control Activities
4. Information and Communication

Components of Internal Control

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

Ask the Right Internal Control Questions about:

ETHICS

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1. Do board members and senior executives set a day-in, day-out example of high integrity and ethical behavior?

ETHICS

2. Is there a written code of conduct for employees, and is it reinforced by training, top down communications, and requirements for periodic written statements of compliance from key employees?

ETHICS

3. Are performance and incentive compensation targets reasonable and realistic, or do they create undue pressure on achievement of short-term results?

ETHICS

4. Is it clear that fraudulent financial reporting at any level and in any form will not be tolerated?

ETHICS

5. Are ethics woven into criteria that are used to evaluate individual and business unit performance?

ETHICS

6. Does management react appropriately when receiving bad news from subordinates and business units?

ETHICS

7. Does a process exist to resolve close ethical calls?

ETHICS

8. Are business risks identified and candidly discussed with the board of directors?

RISK

RISK

1. Is relevant and reliable internal and external information identified, compiled, and communicated in a timely manner to those who are positioned to act?

RISK

2. Are risks identified and analyzed, and actions taken to mitigate them?

RISK

3. Are controls in place to assure that management decisions are properly carried out?

INTERNAL CONTROL

INTERNAL CONTROL

1. Do senior and line management executives demonstrate that they accept control responsibility, not just delegate that responsibility to financial and audit staff?

INTERNAL CONTROL

2. Does management routinely monitor controls in process of running the organization's operations?

INTERNAL CONTROL

3. Does management clearly assign responsibilities for training and monitoring of internal controls?

INTERNAL CONTROL

4. Are periodic, systematic evaluations of control systems conducted and documented?

INTERNAL CONTROL

5. Are such evaluations conducted by personnel with appropriate responsibilities, business experience, and knowledge of the organization's affairs?

INTERNAL CONTROL

6. Are appropriate criteria established to evaluate controls?

INTERNAL CONTROL

7. Are control deficiencies reported to higher levels of management and corrected on a timely basis?

INTERNAL CONTROL

8. Are appropriate controls built in as new systems are designed and brought on stream?

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