



# 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
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- 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

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- 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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1. Control Environment
2. Risk Assessment

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3. Control Activities

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4. Information and Communication

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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

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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

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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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