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## Practical Considerations for COSO's 2013 Framework

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The *Internal Control – Integrated Framework* of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) from 1992 has been entrenched in U.S business vernacular for the past decade, especially for public companies subject to Sarbanes-Oxley. Public companies must cite the control framework management uses to evaluate the effectiveness of their internal control over financial reporting in their 10-Ks filed annually with the SEC. COSO's framework is by far the most popular one used, not just by public companies, but by many private companies and non-profit organizations aspiring to realize a robust control environment. Now, we will have a new framework as COSO pegs a date of December 15, 2014 after which time the 1992 framework will be considered superseded by the 2013 framework. This article explores practical action steps in preparation for this new framework.

Last month the COSO Board approved its updated *Internal Control – Integrated Framework: 2013* (Framework) and announced its release date of May 14, 2013 (see [COSO's March 20<sup>th</sup> press release](#)). The press release also states that COSO will issue a volume of *Illustrative Tools for Assessing Effectiveness of a System of Internal Control*, as well as *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples* to assist users when applying the Framework to external financial reporting objectives.

The Framework has been in development since COSO announced their intentions to modernize its *Internal Control - Integrated Framework* in a press release dated November 18, 2010 (see [COSO's 2010 press release](#)). In this release, COSO states:

*“Enhancements to the Framework are not intended to alter the core principles first developed in 1992, but rather facilitate more robust discussion of internal control. Certain concepts and guidance in the Framework will be refined to reflect the evolution of the operating environment, changed expectations of regulators and other stakeholders. In addition, enhancements are expected to consider more than financial reporting and to consider ways to enrich the guidance on operations and compliance objectives.”*

It has been a long development process, one that has seen two exposure drafts for public comments, as well as a delay in releasing the final draft from 2012 to 2013. However, now that the COSO Board has approved the final Framework language it is time to think about its impact:

### Don't Panic

Although we have a deep glimpse of how the Framework will generally look through its two exposure drafts, we do not know the final language. That said, COSO has reiterated that the key concepts and principles embedded in the original 1992 framework are fundamentally sound. Thus, we should not expect wholesale changes to the fundamental building blocks of the 1992 framework.



## Workload

The question that should be considered by audit committees' and CFOs' is – how will this impact our us going forward? Obviously, the answer to this question depends on several variables, most of which are unique to the specific organization. However, it is doubtful that companies will need to revamp their entire control documentation and approach since the 1992 framework is widely recognized as sound and the basis for the new Framework. Rather than a complete overhaul, consider the new Framework as an opportunity to take a fresh look at your objectives, risks, and controls to help mitigate the risks of not accomplishing your operating, compliance, and financial reporting objectives.

## Education

Despite the foundational pillars remaining the same between the 1992 framework and the new Framework, there will be changes. It is important to understand these changes for all organizations that currently use the 1992 framework in evaluating the effectiveness of their controls. For those organizations that may have passed on utilizing the 1992 framework, this will be a good time to give the Framework a close look. Thus, consider building into your training curriculum a heavy dose of understanding the Framework and how it differs from the 1992 framework. For CPAs, CMAs and other professionals requiring continuing professional education, this will be a good topic to gain some reportable hours.

## Take Advantage of the Framework

Don't look at this as another regulatory compliance exercise, but rather grasp the spirit of the Framework's objectives in providing more relevant guidance and examples. The underlying spirit of the Framework is to make it easier for companies to understand effective internal control and how controls relate in practice, not simply in theory. As stated in COSO's March 20<sup>th</sup> release; *"The Framework and related illustrative documents are intended to help organizations in their efforts to adapt to increasing complexity and pace of change, to mitigate risks to the achievement of objectives and to provide reliable information to support sound decision making."*

## Transition Plan

COSO identified a specific transition period in their March 20<sup>th</sup> release of May 14, 2013 to December 15, 2014, stating, *"During that period, the Board believes that application of its Internal Control-Integrated Framework that involves external reporting should clearly disclose whether the original or 2013 version was utilized."* The COSO Board also announced that after December 15, 2014, they will consider the 1992 framework as being superseded. While the transition period may seem like a long window of time, it is not when a company's fiscal year period is factored into the timeline. It will be important for organizations, especially public companies with SEC periodic reporting requirements, to have a precise plan for transition. To the extent a company or external auditor references COSO's *Internal Control – Integrated Framework* in their reports, they should distinguish which framework (1992 or 2013) they are using during the transition period.

Stay tuned as COSO's *Internal Control – Integrated Framework: 2013* is coming soon!

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