

COSO *Internal Control - Integrated Framework* Update Project
Frequently Asked Questions
(January 2012)

1. What is this nature and timing of this project?

While the original Internal Control-Integrated Framework (ICIF or the Framework) has proven to be one of the most widely accepted frameworks for designing and evaluating systems of internal control, the COSO Board has decided to update the Framework to make it more relevant to stakeholders in the current business environment.

In the nearly twenty years since the original Framework was first developed in 1992, business and operating environments have changed dramatically, becoming increasingly complex, technologically driven and global in scope. At the same time, stakeholders are more engaged, seeking greater transparency and accountability for the integrity of systems of internal control that support the business decisions and governance of the organization. However, the COSO Board believes that the principles embedded within the original Framework are timeless. Hence, the clarifications, updates and enhancements to the Framework are not expected to alter these embedded principles fundamentally based on the broad market acceptance to date. The updated *Framework* should enable more effective application in practice of internal control over operations, compliance and reporting. Certain concepts and discussions are expected to be refined to reflect certain changes in the business environment and in expectations in the market place. It is also the intent of the COSO Board to keep the Framework as succinct as possible.

The projected publication date of the updated *Framework* is late-2012 and is intended to be rolled out with minimal disruption to capital markets.

2. Will the conceptual and logical construct of the Framework (i.e., three categories of objectives and five components of internal control) be overhauled?

No. The experienced stakeholder will find much familiar in the updated *Framework*, which builds on what has proven effective in the original version. The updated *Framework* is consistent in many respects with the original Framework first developed in 1992, and includes the same definition of internal control, three categories of objective -- the effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable laws and regulations; five components of internal control -- control environment, risk assessment, control activities, information and communication, and monitoring activities. Also, the updated *Framework* continues to apply judgment in developing, implementing and assessing effective internal control.

However, the *Framework* is being updated by (i) codifying the principles that were embedded in the 1992 Framework to facilitate the development and evaluation of the effectiveness of internal control, and (ii) expanding the financial reporting objectives to include internal and external, financial and non-financial sub-categories of the reporting category of objectives. The original Framework is also being updated and enhanced to reflect changes in the business and operating environments as discussed above.

3. What are the required criteria to assess effectiveness in the updated *Framework*?

To have an effective system of internal control relating to one, two, or all three categories of objectives, each of the five components must be present and operate together in a manner that reduces, to an acceptable level, the risk of not achieving an objective. In addition, the existence of any material weakness or major non-conformity would preclude an organization from concluding that the entity's system of internal control is effective.

In assessing whether the system of internal control is effective, senior management and the board of directors determine to what extent the principles and, in turn, the corresponding attributes associated with each component are present and functioning. When a principle is deemed not to be present or functioning, an internal control deficiency exists. Management applies judgment in evaluating whether a deficiency prevents the entity from concluding that a component of internal control is present and functioning. Supporting each principle are attributes. Even though attributes are expected to be present and functioning, it may be possible to determine that the corresponding principle is present and functioning, and thus a component can be present and functioning without every attribute being present.

4. How will this updated *Framework* affect SOX 404 Filers?

The underlying attestation process, e.g., SOX 404 (a) and 404 (b), is not expected to change. In the spirit of continuous improvement, the updated *Framework* will include principles and related attributes associated with the five components of internal control, which were embedded in the original *Framework*. These principles and attributes should provide helpful guidance to users in designing, implementing conducting, and evaluating the effectiveness of a system of internal control. The public exposure draft of the updated *Framework* includes an appendix of the key revisions made to the original *Framework*.

In March 2011, the COSO Board decided to develop supplemental guidance that further addresses the application of the updated *Framework* to the external financial reporting objectives - *Internal Control over External Financial Reporting* Guidance (ICEFR Guidance). This guidance will link the principles and related attributes included in the updated *Framework* to relevant approaches and examples for external financial reporting objectives. The scope of the ICEFR Guidance is expected to focus on the preparation of published financial statements; however, this guidance is also expected to be useful for other external financial reporting objectives. Such guidance will allow for a more detailed and tailored discussion of internal control over external financial reporting relating to published financial statements, while allowing the updated *Framework* to focus on operations, compliance and reporting objectives.

5. Who is involved?

PwC serves as the author and project leader for updating the *Framework* and reporting to the COSO Board of Directors.

To capture views of a broad range of professionals in the market place, COSO has formed an Advisory Council representing industry practitioners as well as representatives and observers

from academia, government agencies, and non-profit organizations to capture views of a broad range of professionals in the market place. The Advisory Council is comprised of the following members:

Members	Organization	COSO Affiliation
<i>(in alphabetical order by last name)</i>		
Jim DeLoach	Protiviti	Accounting & Consulting Firm
John Fogarty	Deloitte	Accounting & Consulting Firm
Trent Gazzaway	Grant Thornton	Accounting & Consulting Firm
Audrey Gramling	Kennesaw State University	American Accounting Association (AAA)
Steven Jameson	Community Trust Bank	Institute of Internal Auditors (IIA)
Cees Klumper	GAVI Alliance	GAVI Alliance
Steve McNally	Campbell Soup	Institute of Management Accountants (IMA)
Thomas Montminy	PwC	Accounting & Consulting Firm
Al Paulus	E&Y	Accounting & Consulting Firm
Ray Purcell	Pfizer	Financial Executives International (FEI)
Tom Ray	KPMG	Accounting & Consulting Firm
Bill Schneider, Sr.	AT&T	American Institute of Certified Public Accountants (AICPA)
Ken Vander Wal	ISACA	Information Systems Audit and Control Association (ISACA)

The updated *Framework* together with the supplemental guidance on ICEFR will be exposed for public comment to capture any additional input from the general public to help ensure that the update adequately addresses internal control challenges that organizations face today.

6. To what extent are regulators involved in this initiative?

Representatives of the FDIC, GAO, IFAC, PCAOB, and SEC have been invited as observers to attend the Advisory Council meetings and provide input to the project. Additional meetings with certain of these representatives are also occurring from time to time.

7. When will the COSO Board seek comments from the public on the updated *Framework* and the ICEFR Guidance?

The COSO Board released the updated *Framework* for public comment on December 19, 2011 with a comment period extending to March 31, 2012. In addition, the COSO Board expects to release the Guidance on Internal Control over External Financial Reporting for a 60-day comment period in early summer of 2012.

8. How did the COSO Board obtain initial input from various stakeholders to develop the scope and extent of revision for the updated *Framework*?

The COSO Board solicited input from a broad audience of stakeholders for updating the Framework from January 4th to September 1st, 2011. During this period, the COSO Board received responses from more than 750 survey respondents, representing many different types of stakeholders and geographic regions. Overall, a large majority of respondents support updating, but not overhauling the Framework.

9. To what extent are international constituencies involved in this initiative?

International input is being sought to maximize alignment with other frameworks from around the world where possible. IFAC has provided a representative to serve as an observer to the Advisory Council. Among the organizations forming the Advisory Council, one comes from overseas and several have international representation.

10. What does this mean for other existing COSO frameworks, guidance and tools, such as the Enterprise Risk Management - Integrated Framework, the Guidance for Smaller Public Companies, and the Guidance on Monitoring Internal Control Systems? Will they become obsolete?

COSO's 2004 Enterprise Risk Management - Integrated Framework and 2009 Guidance on Monitoring Internal Control Systems are expected to remain. The 2006 Guidance on Internal Control over Financial Reporting - Guidance for Smaller Public Companies will be superseded by the issuance of the supplemental guidance on ICEFR to be published with this updated *Framework*. This Guidance is expected to illustrate supplemental approaches and examples for public and private entities, as well as retaining relevant guidance for smaller businesses.

Depending on the nature and extent of updates deemed necessary, certain concepts from such frameworks, guidance, and tools may be leveraged or enhanced, as applicable.

11. How was PwC selected as the project leader?

A thorough selection process was followed for selecting Coopers & Lybrand, a predecessor firm of PwC, to write the original Framework in 1992. They were given the right of first refusal for future updating requests and have been engaged to do this update. The PwC team includes senior resources involved in previous COSO projects that bring an in-depth understanding of the 1992 Framework and the rationale for decisions made in creating that Framework, as well as senior resources that can provide fresh market perspectives.

12. How can I provide comments for consideration relating to the exposure draft of the updated *Framework*?

The updated *Framework* has been issued for public comment on December 19, 2011 and will remain open until March 31, 2012. The exposure draft can be found at www.ic.coso.org. Any interested party wishing to express a point of view relevant to the updated *Framework* may answer questions and/or provide additional feedback, as the respondent deems appropriate, at www.ic.coso.org.

13. When will the comment letters to the updated *Framework* be made available to the public, and how can I access them?

All exposure draft comments will be posted to COSO's website once received and reviewed by the COSO project team. You can access these comments at www.ic.coso.org.

If you have any other questions or suggestions, please email icif@us.pwc.com