

**COSO *Internal Control - Integrated Framework* Update Project**  
**Frequently Asked Questions**  
(September 2011)

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

While the 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.

The COSO Board believes that the principles embedded within the Framework first developed in 1992 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 mid-2012 and is intended to be rolled out with minimal disruption to capital markets.

**2. What are some of the preliminary areas expected to be updated?**

While the nature and extent of updates are still being defined on the date of this document, preliminary topics of discussion that gave rise to the need for considering an update to the original Framework include the following:

- Reflecting the increased use of IT in business operations (e.g., ERP systems, other automation tools, internet);
- Expanding the financial reporting objective to include consideration of management reporting and external reporting more broadly (not intended to affect the scope of Sarbanes-Oxley compliance which remains focused on internal controls over financial reporting), (e.g., enabling reporting on sustainability and various third party standards);
- Providing more detail around key governance principles (e.g., responsibilities of the audit committee, compensation committees, and alignment of incentives);
- Explaining the linkages between Internal Control and Enterprise Risk Management frameworks to enable more effective and integrated application in practice;
- Expanding the discussion on risk assessment;
- Reflecting changes in business models (e.g., increased use of outsource providers, increased rationalization of supply chain and infrastructure management);
- Considering the nature and broader impact of fraud in the business environment (e.g., inappropriate use of assets, intentional misrepresentation);
- Making more crisp and concise those areas of lengthy discussion in the original Framework that have become institutional knowledge; and

- Incorporating core aspects of the 2006 *Internal Control over Financial Reporting-Guidance for Smaller Public Companies* and the 2009 *Guidance on Monitoring Internal Control Systems*.

The update is expected to be analogous to a software update, where the original version remains valid and usable, but the update reflects the additional knowledge and experience gained over time and provides more up-to-date content and a more user-friendly interface.

### **3. Will the conceptual and logical construct of the Framework (i.e. the three objective categories and five components) be overhauled?**

The updated Framework will be consistent in many respects with the Framework first developed in 1992 - the three categories of objectives; the effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable laws and regulations; and the five components of internal control, comprising the control environment, risk assessment, control activities, information and communication, and monitoring activities. However, it is also being updated and enhanced to reflect changes in the business environment and in expectations of stakeholders. For example, the Framework will be updated and enhanced to address greater expectations for governance oversight, greater use and reliance on technology, significant changes in the business environment, among many others. Also, the updated Framework will codify principles that were embedded in the 1992 Framework to further facilitate the development and evaluation of the effectiveness of internal control systems.

### **4. What will be the structural elements of each component within the Framework?**

The updated Framework's principles and attributes, which have been drawn from the five components of the 1992 Framework define the essential considerations for managing or evaluating the presence and functioning of the five components of internal control. It is generally expected that all principles will, to some extent, be present and functioning for an organization to have effective internal control, or when a principle is not being met, some form of internal control deficiency exists. Attributes represent characteristics associated with particular principles. Although each attribute is generally expected to be present and functioning within an entity, it may be possible for a principle to be present and functioning even though not every attribute relating to that principle is present and functioning.

### **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:

<b>Members</b>	<b>Company</b>	<b>COSO Affiliation</b>
<i>(in alphabetical order by last name)</i>		
<b>1. Jim DeLoach</b>	Protiviti	Accounting & Consulting Firm
<b>2. John Fogarty</b>	Deloitte	Accounting & Consulting Firm
<b>3. Trent Gazzaway</b>	Grant Thornton	Accounting & Consulting Firm
<b>4. Audrey Gramling</b>	Kennesaw State University	American Accounting Association (AAA)
<b>5. Steven Jameson</b>	Community Trust Bank	Institute of Internal Auditors (IIA)
<b>6. Cees Klumper</b>	GAVI Alliance	GAVI Alliance
<b>7. Steve McNally</b>	Campbell Soup	Institute of Management Accountants (IMA)
<b>8. Thomas Montminy</b>	PwC	Accounting & Consulting Firm
<b>9. Al Paulus</b>	E&Y	Accounting & Consulting Firm
<b>10. Ray Purcell</b>	Pfizer	Financial Executives International (FEI)
<b>11. Tom Ray</b>	KPMG	Accounting & Consulting Firm
<b>12. Bill Schneider, Sr.</b>	AT&T	American Institute of Certified Public Accountants (AICPA)
<b>13. Ken Vander Wal</b>	ISACA	Information Systems Audit and Control Association (ISACA)

The updated Framework together with the companion 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?**

The SEC, FDIC, GAO, PCAOB, and IFAC are invited as observers to attend the Advisory Council meetings and provide input to the project. The Advisory Council will provide input to the project. Other regulators may be involved from time to time.

**7. How will this update to the 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 are expected to clarify how to apply the updated Framework in designing, implementing operating and evaluating the effectiveness of a system of internal control.

We anticipate that the public exposure draft of the updated Framework will include an appendix of the key revisions made to the 1992 Framework.

In March 2011, the COSO Board decided to develop a companion document to the updated ICIF that addresses the application of the updated Framework specifically to the external financial reporting objectives. This document will link the principles and related attributes included in the updated Framework to relevant approaches and examples for external financial reporting objectives. The Board anticipates this companion document will supersede the 2006 Guidance on Internal Control over Financial Reporting - Guidance for Smaller Public Companies while retaining relevant guidance for small businesses. The Overview chapter of this companion document will be exposed for public comment along with the updated Framework, and the entire companion document, including approaches and examples will be exposed for public comment in the spring 2012. Such a companion document will allow for a more detailed and tailored discussion of internal control over financial reporting for compliance with SOX 404 while allowing the overall integrated framework to focus on operations, compliance and reporting objectives.

**8. When will the COSO Board seek comments from the public on the updated Framework?**

The COSO Board decided to conduct expose for public review and comment: a) the updated Framework and the overview chapter of the *Guidance on Internal Control over External Financial Reporting* (ICEFR) in the fall of 2011; and b) the full guidance on ICEFR in the spring of 2012. The decision to release the overview chapter to be included in the ICEFR Guidance along with the updated Framework was made to help the public to draw the connection between the updated Framework and the Guidance on ICEFR before the entire Guidance document is expected to be ready for exposure.

**9. How did the COSO Board obtain input from various stakeholders in developing the updated Framework?**

The COSO Board solicited input from a broad audience of stakeholders for updating the Framework from January 1 to September 1, 2011. During this period, the COSO Board received responses from more than 750 survey respondents, representing many different types of stakeholders and geographic regions.

**10. 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. In addition, regulators or standard-setters from other parts of the world will be engaged from time to time.

**11. 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 is anticipated to be superseded by the companion guidance on ICEFR to be published with this updated Framework, retaining relevant guidance for small 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.

**12. 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.

**13. How are COSO and the Project Team getting input?**

The COSO Board and Project Team are getting input from several channels throughout the course of the project:

- The Advisory Council provides input through quarterly meetings and periodic communications;
- A survey has been made available to the general public ([COSO Web Survey Link](#)) through the COSO Board members, Advisory Council, and the COSO website ([www.coso.org](http://www.coso.org)), soliciting input on the Framework (what is dated or challenging to interpret, how it could be improved or made more current, what is unnecessary and why, what is missing, and other observations);
- Comments can also be provided to the Project Team through the COSO website or via email; and
- The updated Framework will be issued for public comment.

If you have any other questions or suggestions, please email [icif@us.pwc.com](mailto:icif@us.pwc.com)