

What is COSO?

- The Committee of Sponsoring Organizations of the Treadway Commission
- Private sector initiative
Established in 1985 by five financial professional associations.



Definition of Internal Controls

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



Internal Control Structure

■ Internal Control Structure

- Safeguards in the form of policies and procedures established to provide management with reasonable assurance that the objectives of an entity will be achieved
 - AICPA definition
- Internal to the organization
- Designed, Implemented and Monitored by management



Five basic categories of internal controls

- Accurate accounting records and financial statements containing reliable data
- Safeguard assets and records such as cash, confidential information, reputation and image
- Effectively and efficiently run operations without duplication of effort or waste
- Follow management policies



Five Categories Cont.

- Five categories cont.
 - Comply with applicable laws and regulations such as Foreign Corrupt Practices Act
- Foreign Corrupt Practice Act (FCPA) 1977
 - Legislation requiring publicly traded companies to maintain accurate records
 - Requires an adequate system of internal accounting controls

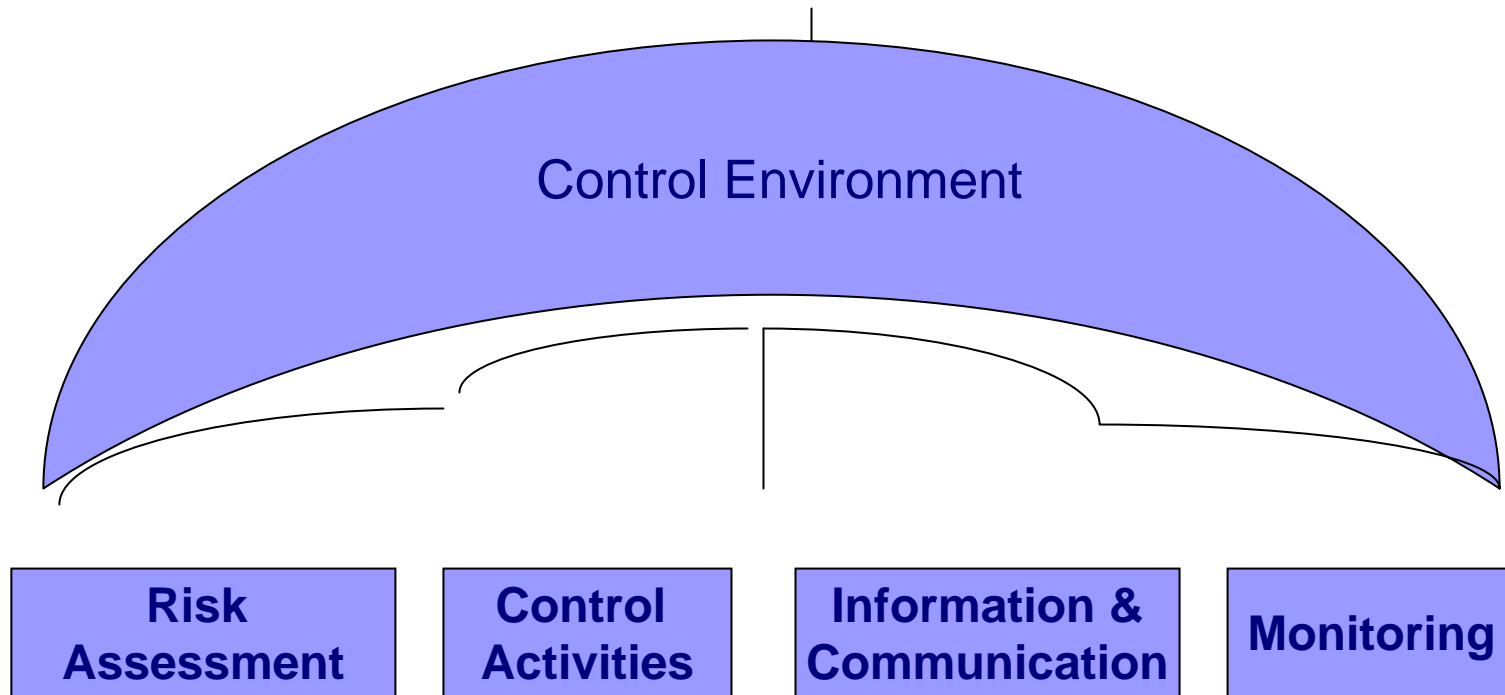


Five basic components of the Internal Control Structure

- Control environment
- Risk assessment
- Control activities
- Information and communication
- monitoring



Control Environment



Control Environment

- The actions, policies, and procedures that reflect the overall attitudes of top management, the directors, and the owners about control and its importance to the entity
- Management philosophy and operating style
 - AKA “tone at the top”
 - Does management set a good example by following controls?
 - Do they stress the importance of controls to other employees?



Control Environment

■ Organizational Structure

- Is clear lines of authority and responsibility identified

■ Audit Committee

- Subset of the board of directors
- Publicly traded companies must have this committee and it must be comprised of outside directors

■ Commitment to competence

■ Integrity and Ethical Values



Risk Assessment

- Management assesses risks as a part of designing and operating internal controls to minimize errors and irregularities



Control Activities

- Policies and procedures
- Five categories
 - Segregation of duties
 - Proper procedures for authorization
 - Adequate documents and records
 - Physical control over assets and records
 - Independent checks on performance



Information & Communication

- Dissemination of general and critical information is essential
- As with general information, an entity's accounting information and communication system must be able to:
 - identify
 - assemble and classify
 - analyze
 - and record and report the entity's transactions



Information & Communication

- Seven control objectives
 - Validity
 - Authorization
 - Completeness
 - Classification
 - Timeliness
 - Valuation
 - Posting and Summarization



Monitoring

- Deal with ongoing or periodic assessment of the quality of internal control performance
 - Determine that controls are operating as intended
 - Make sure they are modified as appropriate for changes in conditions

