Road to Transition - COSO 2013

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Why was the Framework updated?

The complexity and pace of change in rules, regulations and standards have intensified demands on companies. The Framework was updated to make it more relevant to investors and shareholders, who have higher expectations regarding governance oversight, risk management and the detection and prevention of fraud. COSO's 2013 Framework is intended to enhance organizations' control structures amid the dynamic and rapidly evolving business environment in which we operate. According to COSO, the benefits that the 2013 Framework offers include the following:

- Enhanced governance
- Extended coverage/applicability for the reporting objective beyond financial reporting to other forms of reporting, operations, and compliance (for example, sustainability reporting)
- Improved risk assessment and antifraud practices
- Enhanced adaptability to change and varied business/operating models

What changed?

In a nutshell, the main change is the codification of the 17 principles that support the five components. The Framework requires the five components and the 17 relevant principles to be present and functioning. The five components must operate together in an integrated manner.

The following table depicts the components and principles to serve as comprehensive guidance for entities:

Control Environment
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority & responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment
6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies & analyzes significant change

Control Activities
10. Selects & develops control activities
11. Selects & develops general controls over technology
12. Deploys through policies & procedures

Information & Communication
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Is adoption of the 2013 Framework required for SOX 404 compliance?

During the transition period (May 14, 2013, through December 15, 2014), COSO suggests that any "application of its *Internal Control — Integrated Framework* that involves external reporting should clearly disclose whether the original or 2013 version was utilized." As a result, entities leveraging COSO's *Internal Control—Integrated Framework* for external reporting purposes must clearly disclose whether they used the 1992 or 2013 version.

Transition Plan

Issuers should establish a transition plan to aid in the adoption of the updated framework. The plan should include a review of the existing control set to ensure continued alignment with the updated Framework and underlying concepts and principles. In addition, management should communicate their assessment of any implications of, and determination of appropriate action for applying the framework, to their Board of Directors.