

[www.pwc.com](http://www.pwc.com)

# *The Updated COSO Internal Control- Integrated Framework*

Appendix – Components,  
principles and points of focus

## *Control Environment – Principles*



1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

## *Control Environment – Principle #1 and Points of Focus*

The organization demonstrates a commitment to integrity and ethical values.

- **Sets the Tone at the Top**—The board of directors and management at all levels of the entity demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.
- **Establishes Standards of Conduct**—The expectations of the board of directors and senior management concerning integrity and ethical values are defined in the entity’s standards of conduct and understood at all levels of the organization and by outsourced service providers and business partners.
- **Evaluates Adherence to Standards of Conduct**—Processes are in place to evaluate the performance of individuals and teams against the entity’s expected standards of conduct.
- **Addresses Deviations in a Timely Manner**—Deviations from the entity’s expected standards of conduct are identified and remedied in a timely and consistent manner.

## *Control Environment – Principle #2 and Points of Focus*

The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control

- **Establishes Oversight Responsibilities**—The board of directors identifies and accepts its oversight responsibilities in relation to established requirements and expectations.
- **Applies Relevant Expertise**—The board of directors defines, maintains, and periodically evaluates the skills and expertise needed among its members to enable them to ask probing questions of senior management and take commensurate actions.
- **Operates Independently**—The board of directors has sufficient members who are independent from management and objective in evaluations and decision making.
- **Provides Oversight for the System of Internal Control**—The board of directors retains oversight responsibility for management’s design, implementation, and conduct of internal control...

## *Control Environment – Principle #3 and Points of Focus*

Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

- **Considers All Structures of the Entity**—Management and the board of directors consider the multiple structures used (including operating units, legal entities, geographic distribution, and outsourced service providers) to support the achievement of objectives.
- **Establishes Reporting Lines**—Management designs and evaluates lines of reporting for each entity structure to enable execution of authorities and responsibilities and flow of information to manage the activities of the entity.
- **Defines, Assigns, and Limits Authorities and Responsibilities**—Management and the board of directors delegate authority, define responsibilities, use appropriate processes and technology to assign responsibilities, and segregate duties as necessary at the various levels of the organization, including board of directors, senior management, management, personnel, and outsourced service providers.

## *Control Environment – Principle #4 and Points of Focus*

The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

- **Establishes Policies and Practices**—Policies and practices reflect the organization’s expectations of competence necessary to support the achievement of objectives.
- **Evaluates Competence and Addresses Shortcomings**—The board of directors and management evaluate competence across the organization and in outsourced service providers in relation to established policies and practices, and acts as necessary to address shortcomings.
- **Attracts, Develops, and Retains Individuals**—The organization provides the mentoring and training needed to attract, develop, and retain sufficient competent personnel and outsourced service providers to support the achievement of objectives.
- **Plans and Prepares for Succession**—Senior management and the board of directors develop contingency plans for assignments of responsibility important for internal control.

## *Control Environment – Principle #5 and Points of Focus*

The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

- **Enforces Accountability through Structures, Authorities, and Responsibilities**—Management and the board of directors establish the mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the organization and implement corrective action as necessary.
- **Establishes Performance Measures, Incentives, and Rewards**—Management and the board of directors establish performance measures, incentives, and other rewards appropriate for responsibilities at all levels of the entity, reflecting appropriate dimensions of performance and expected standards of conduct, and considering the achievement of both short-term and longer-term objectives.
- **Evaluates Performance Measures, Incentives, and Rewards for Ongoing Relevance**—Management and the board of directors align incentives and rewards with the fulfillment of internal control responsibilities in the achievement of objectives.

## *Control Environment – Principle #5 and Points of Focus (Continued)*

The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

- **Considers Excessive Pressures** —Management and the board of directors evaluate and adjust pressures associated with the achievement of objectives as they assign responsibilities, develop performance measures, and evaluate performance.
- **Evaluates Performance and Rewards or Disciplines Individuals** — Management and the board of directors evaluate performance of internal control responsibilities, including adherence to standards of conduct and expected levels of competence and provide rewards or exercise disciplinary action as appropriate.



## *Risk Assessment – Principles*



6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control.

## ***Risk Assessment – Principle #6 and Points of Focus***

The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

### **External Financial Reporting Objectives**

- **Complies with Applicable Accounting Standards**—Financial reporting objectives are consistent with accounting principles suitable and available for that entity. The accounting principles selected are appropriate in the circumstances.
- **Considers Materiality**—Management considers materiality in financial statement presentation.
- **Reflects Entity Activities**—External reporting reflects the underlying transactions and events to show qualitative characteristics and assertions.

Note that there are additional Point of Focus for non-financial external reporting, internal reporting, operations, and compliance

## ***Risk Assessment – Principle #7 and Points of Focus***

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

- **Includes Entity, Subsidiary, Division, Operating Unit, and Functional Levels**—The organization identifies and assesses risks at the entity, subsidiary, division, operating unit, and functional levels relevant to the achievement of objectives.
- **Analyzes Internal and External Factors**—Risk identification considers both internal and external factors and their impact on the achievement of objectives.
- **Involves Appropriate Levels of Management**—The organization puts into place effective risk assessment mechanisms that involve appropriate levels of management.
- **Estimates Significance of Risks Identified**—Identified risks are analyzed through a process that includes estimating the potential significance of the risk.
- **Determines How to Respond to Risks**—Risk assessment includes considering how the risk should be managed and whether to accept, avoid, reduce, or share the risk.

## ***Risk Assessment – Principle #8 and Points of Focus***

The organization considers the potential for fraud in assessing risks to the achievement of objectives.

- **Considers Various Types of Fraud**—The assessment of fraud considers fraudulent reporting, possible loss of assets, and corruption resulting from the various ways that fraud and misconduct can occur.
- **Assesses Incentive and Pressures**—The assessment of fraud risk considers incentives and pressures.
- **Assesses Opportunities**—The assessment of fraud risk considers opportunities for unauthorized acquisition, use, or disposal of assets, altering of the entity’s reporting records, or committing other inappropriate acts.
- **Assesses Attitudes and Rationalizations**—The assessment of fraud risk considers how management and other personnel might engage in or justify inappropriate actions.

## ***Risk Assessment – Principle #9 and Points of Focus***

The organization identifies and assesses changes that could significantly impact the system of internal control.

- **Assesses Changes in the External Environment**—The risk identification process considers changes to the regulatory, economic, and physical environment in which the entity operates.
- **Assesses Changes in the Business Model**—The organization considers the potential impacts of new business lines, dramatically altered compositions of existing business lines, acquired or divested business operations on the system of internal control, rapid growth, changing reliance on foreign geographies, and new technologies.
- **Assesses Changes in Leadership**—The organization considers changes in management and respective attitudes and philosophies on the system of internal control.

## *Control Activities – Principles*



10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into place.

## *Control Activities – Principle #10 and Points of Focus*

The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

- **Integrates with Risk Assessment**—Control activities help ensure that risk responses that address and mitigate risks are carried out.
- **Considers Entity-Specific Factors**—Management considers how the environment, complexity, nature, and scope of its operations, as well as the specific characteristics of its organization, affect the selection and development of control activities.
- **Determines Relevant Business Processes**—Management determines which relevant business processes require control activities.
- **Evaluates a Mix of Control Activity Types**—Control activities include a range and variety of controls and may include a balance of approaches to mitigate risks, considering both manual and automated controls, and preventive and detective controls.

## ***Control Activities – Principle #10 and Points of Focus (Continued)***

The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

- **Considers at What Level Activities Are Applied**—Management considers control activities at various levels in the entity.
- **Addresses Segregation of Duties**—Management segregates incompatible duties, and where such segregation is not practical management selects and develops alternative control activities.



## *Control Activities – Principle #11 and Points of Focus*

The organization selects and develops general control activities over technology to support the achievement of objectives.

- **Determines Dependency between the Use of Technology in Business Processes and Technology General Controls**—Management understands and determines the dependency and linkage between business processes, automated control activities, and technology general controls.
- **Establishes Relevant Technology Infrastructure Control Activities**—Management selects and develops control activities over the technology infrastructure, which are designed and implemented to help ensure the completeness, accuracy, and availability of technology processing.
- **Establishes Relevant Security Management Process Control Activities**—Management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect the entity's assets from external threats.

## *Control Activities – Principle #11 and Points of Focus (Continued)*

The organization selects and develops general control activities over technology to support the achievement of objectives.

- **Establishes Relevant Technology Acquisition, Development, and Maintenance Process Control Activities**—Management selects and develops control activities over the acquisition, development, and maintenance of technology and its infrastructure to achieve management’s objectives.

## *Control Activities – Principle #12 and Points of Focus*

The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

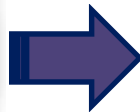
- **Establishes Policies and Procedures to Support Deployment of Management’s Directives**—Management establishes control activities that are built into business processes and employees’ day-to-day activities through policies establishing what is expected and relevant procedures specifying actions.
- **Establishes Responsibility and Accountability for Executing Policies and Procedures**—Management establishes responsibility and accountability for control activities with management (or other designated personnel) of the business unit or function in which the relevant risks reside.
- **Performs in a Timely Manner**—Responsible personnel perform control activities in a timely manner as defined by the policies and procedures.

## *Control Activities – Principle #12 and Points of Focus (Continued)*

The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

- **Takes Corrective Action**—Responsible personnel investigate and act on matters identified as a result of executing control activities.
- **Performs Using Competent Personnel**—Competent personnel with sufficient authority perform control activities with diligence and continuing focus.
- **Reassesses Policies and Procedures**—Management periodically reviews control activities to determine their continued relevance, and refreshes them when necessary.

## *Information & Communication – Principles*



13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

## *Information & Communication – Principle #13 and Points of Focus*

The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

- **Identifies Information Requirements**—A process is in place to identify the information required and expected to support the functioning of the other components of internal control and the achievement of the entity’s objectives.
- **Captures Internal and External Sources of Data**—Information systems capture internal and external sources of data.
- **Processes Relevant Data into Information**—Information systems process and transform relevant data into information.
- **Maintains Quality throughout Processing**—Information systems produce information that is timely, current, accurate, complete, accessible, protected, and verifiable and retained. Information is reviewed to assess its relevance in supporting the internal control components.
- **Considers Costs and Benefits**—The nature, quantity, and precision of information communicated are commensurate with and support the achievement of objectives.

## *Information & Communication – Principle #14 and Points of Focus*

The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

- **Communicates Internal Control Information**—A process is in place to communicate required information to enable all personnel to understand and carry out their internal control responsibilities.
- **Communicates with the Board of Directors**—Communication exists between management and the board of directors so that both have information needed to fulfill their roles with respect to the entity’s objectives.
- **Provides Separate Communication Lines**—Separate communication channels, such as whistle-blower hotlines, are in place and serve as fail-safe mechanisms to enable anonymous or confidential communication when normal channels are inoperative or ineffective.
- **Selects Relevant Method of Communication**—The method of communication considers the timing, audience, and nature of the information..

## *Information & Communication – Principle #15 and Points of Focus*

The organization communicates with external parties regarding matters affecting the functioning of internal control.

- **Communicates to External Parties**—Processes are in place to communicate relevant and timely information to external parties including shareholders, partners, owners, regulators, customers, and financial analysts and other external parties.
- **Enables Inbound Communications**—Open communication channels allow input from customers, consumers, suppliers, external auditors, regulators, financial analysts, and others, providing management and the board of directors with relevant information.
- **Communicates with the Board of Directors**—Relevant information resulting from assessments conducted by external parties is communicated to the board of directors.

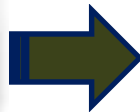


## *Information & Communication – Principle #15 and Points of Focus (Continued)*

The organization communicates with external parties regarding matters affecting the functioning of internal control.

- **Provides Separate Communication Lines**—Separate communication channels, such as whistle-blower hotlines, are in place and serve as fail-safe mechanisms to enable anonymous or confidential communication when normal channels are inoperative or ineffective.
- **Selects Relevant Method of Communication**—The method of communication considers the timing, audience, and nature of the communication and legal, regulatory, and fiduciary requirements and expectations.

## ***Monitoring Activities – Principles***



16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

## ***Monitoring Activities – Principle #16 and Points of Focus***

The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

- **Considers a Mix of Ongoing and Separate Evaluations**—Management includes a balance of ongoing and separate evaluations.
- **Considers Rate of Change**—Management considers the rate of change in business and business processes when selecting and developing ongoing and separate evaluations.
- **Establishes Baseline Understanding**—The design and current state of an internal control system are used to establish a baseline for ongoing and separate evaluations.
- **Uses Knowledgeable Personnel**—Evaluators performing ongoing and separate evaluations have sufficient knowledge to understand what is being evaluated.
- **Integrates with Business Processes**—Ongoing evaluations are built into the business processes and adjust to changing conditions.

## ***Monitoring Activities – Principle #16 and Points of Focus (Continued)***

The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

- **Adjusts Scope and Frequency**—Management varies the scope and frequency of separate evaluations depending on risk.
- **Objectively Evaluates**—Separate evaluations are performed periodically to provide objective feedback.

## ***Monitoring Activities – Principle #17 and Points of Focus***

The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

- **Assesses Results**—Management and the board of directors, as appropriate, assess results of ongoing and separate evaluations.
- **Communicates Deficiencies**—Deficiencies are communicated to parties responsible for taking corrective action and to senior management and the board of directors, as appropriate.
- **Monitors Corrective Actions**—Management tracks whether deficiencies are remediated on a timely basis.

