Internal Control–Integrated Framework (COSO)

Control Environment

1. The organization demonstrates a commitment to integrity and ethical values.
   • Sets the tone at the top
   • Establishes standards of conduct
   • Evaluates adherence to standards of conduct
   • Addresses deviations in a timely manner
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
   • Establishes oversight responsibilities
   • Applies relevant expertise
   • Operates independently
   • Provides oversight on Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring Activities.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
   • Considers all structures of the entity
   • Establishes reporting lines
   • Defines, assigns, and limits authorities and responsibilities
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
   • Establishes policies and practices
   • Evaluates competence and addresses shortcomings
   • Attracts, develops, and retains individuals
   • Plans and prepares for succession
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
   • Enforces accountability through structures, authorities, and responsibilities
   • Establishes performance measures, incentives, and rewards
   • Evaluates performance measures, incentives, and rewards for ongoing relevance
   • Considers excessive pressures
   • Evaluates performance and rewards or disciplines individuals

Risk Assessment

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

   Operations Objectives
   • Reflects management's choices
   • Considers tolerances for risk
   • Includes operations and financial performance goals
   • Forms a basis for committing of resources

   External Financial Reporting Objectives
   • Complies with applicable accounting standards
   • Considers materiality

- Reflects entity activities

External Non-Financial Reporting Objectives

- Complies with externally established standards and frameworks
- Considers the required level of precision
- Reflects entity activities

Internal Reporting Objectives

- Reflects management's choices
- Considers the required level of precision
- Reflects entity activities

Compliance Objectives

- Reflects external laws and regulations
- Considers tolerances for risk

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.
   - Includes entity, subsidiary, division, operating unit, and functional levels
   - Analyzes internal and external factors
   - Involves appropriate levels of management
   - Estimates significance of risks identified
   - Determines how to respond to risks

8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
   - Considers various types of fraud
   - Assesses incentive and pressures
   - Assesses opportunities
   - Assesses attitudes and rationalizations

9. The organization identifies and assesses changes that could significantly impact the system of internal control.
   - Assesses changes in the external environment
   - Assesses changes in the business model
   - Assesses changes in leadership

Control Activities

10. 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
    - Considers entity-specific factors
    - Determines relevant business processes
    - Evaluates a mix of control activity types
    - Considers at what level activities are applied
    - Addresses segregation of duties

11. 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 process and technology general controls
    - Establishes relevant technology infrastructure control activities
    - Establishes relevant security management process control activities
    - Establishes relevant technology acquisition, development, and maintenance process control activities

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

- Establishes policies and procedures to support deployment of management's directives
- Establishes responsibility and accountability for executing policies and procedures
- Performs in a timely manner
- Takes corrective action
- Performs using competent personnel
- Reassesses policies and procedures

Information & Communication

13. The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.
    - Identifies information requirements
    - Captures internal and external sources of data
    - Processes relevant data into information
    - Maintains quality throughout processing
    - Considers costs and benefits
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of internal control.
    - Communicates internal control information
    - Communicates with the board of directors
    - Provides separate communication lines
    - Selects relevant method of communication
15. The organization communicates with external parties regarding matters affecting the functioning of other components of internal control.
    - Communicates to external parties
    - Enables Inbound Communications
    - Communicates with the board of directors
    - Provides separate communication lines
    - Selects relevant method of communication

Monitoring Activities

16. 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
    - Considers rate of change
    - Establishes baseline understanding
    - Uses knowledgeable personnel
    - Integrates with business processes
    - Adjusts scope and frequency
    - Objectively evaluates
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.
    - Assesses results
    - Communicates deficiencies to parties responsible for corrective action and to senior management and the board of directors
    - Monitors corrective actions