



# seminar nasional internal audit 2014

Mengembangkan Integrated Assurance  
untuk Mencapai *Triple Bottom Lines: Profit, People dan Planet*

## **COSO 2013 : The Challenges and Strategies to Implement 17 Principles**

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**BCA**

## *Agenda*



COSO 2013 Framework:  
Summary of Changes



Challenges & Transition  
Considerations



Challenges in Local  
Context

## **COSO 2013 Framework: Summary of Changes**



## Introduction to COSO 2013



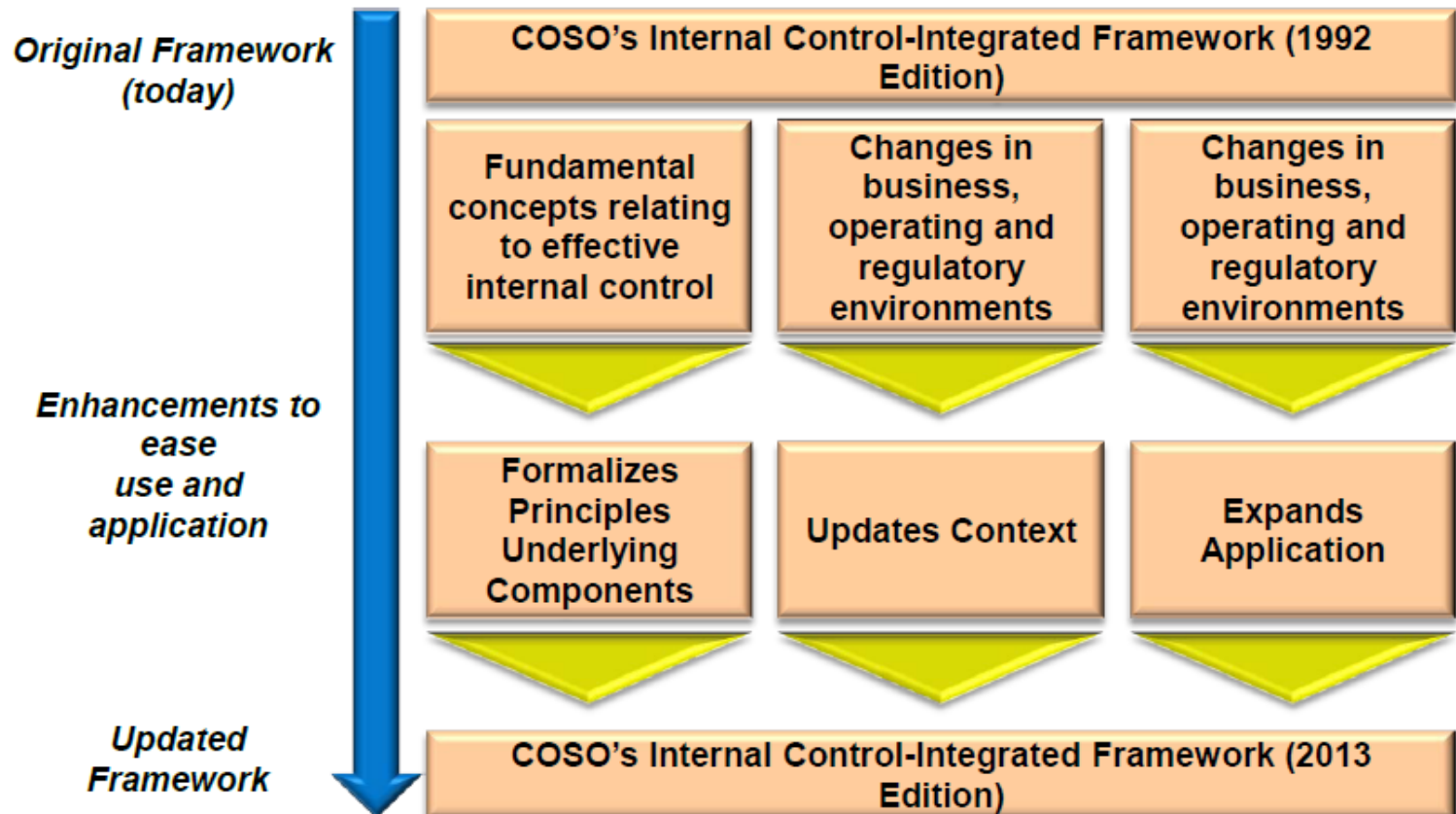
### Updated Internal Control – Integrated Framework (2013 Framework) issued on May 14, 2013

#### Companion documents:

- Internal Control – Integrated Framework: Executive Summary
- Illustrative Tools for Assessing Effectiveness of a System of Internal Control
- Internal Control over External Financial Reporting: A Compendium of Approaches and Examples

**COSO 1992 Framework will be available until December 15, 2014, then superseded**

## Why Update What Works



## COSO 2013 Framework – Summary of Changes

### What is not changing...

- Core definition of internal control
- Three categories of objectives and five components of internal control
- Each of the five components of internal control are required for effective internal control
- Important role of judgment in designing, implementing and conducting internal control, and in assessing its effectiveness



### What is changing...

- Updated for changes in business and operating environments
- Expanded operations and reporting objectives suitable for other purposes
- Implicit fundamental concepts underlying five components codified as 17 principles
- Updated for increased relevance and dependence on IT
- Addresses fraud risk assessment and response (Principle #8)

## COSO Components and Principles

*17 Principles codified under the 2013 Framework based on implicit fundamental concepts of the 1992 Framework*

|                                      |   |
|--------------------------------------|---|
| <b>Control Environment</b>           | <ol style="list-style-type: none"> <li>1. Demonstrates commitment to integrity and ethical values</li> <li>2. Exercises oversight responsibility</li> <li>3. Establishes structure, authority and responsibility</li> <li>4. Demonstrates commitment to competence</li> <li>5. Enforces accountability</li> </ol> |
| <b>Risk Assessment</b>               | <ol style="list-style-type: none"> <li>6. Specifies suitable objectives</li> <li>7. Identifies and analyzes risk</li> <li>8. Assesses fraud risk</li> <li>9. Identifies and analyzes significant change</li> </ol>  |
| <b>Control Activities</b>            | <ol style="list-style-type: none"> <li>10. Selects and develops control activities</li> <li>11. Selects and develops general controls over technology</li> <li>12. Deploys through policies and procedures</li> </ol>   |
| <b>Information and Communication</b> | <ol style="list-style-type: none"> <li>13. Uses relevant information</li> <li>14. Communicates internally</li> <li>15. Communicates externally</li> </ol>   |
| <b>Monitoring Activities</b>         | <ol style="list-style-type: none"> <li>16. Conducts ongoing and/or separate evaluations</li> <li>17. Evaluates and communicates deficiencies</li> </ol>   |

## Points of Focus

- Points of Focus provide example characteristics of the principles
- Points of focus may facilitate designing, implementing, and conducting internal control
- A point of focus may not be suitable or relevant, and others may be identified
- There is no requirement to separately assess whether points of focus are in place

### Component

**Control Environment**

### Principle

1. The organization demonstrates a commitment to integrity and ethical values.

### Points of Focus

1. Sets the Tone at the Top
2. Establishes Standards of Conduct
3. Evaluates Adherence to Standards of Conduct
4. Addresses Deviations in a Timely Manner



# Challenges and Transition Considerations

## COSO Components: Challenges

|                                      |   |
|--------------------------------------|---|
| <b>Control Environment</b>           | <ul style="list-style-type: none"> <li>Public companies: may need to improve documentation and assess existing controls not specifically evaluated to support management's assessment.</li> <li>Non-public companies: challenging to demonstrate principles.</li> <li>Ensuring <i>and demonstrating</i> that individuals have appropriate skills, execute Internal Control responsibility and are held accountable are stronger are more pervasive.</li> </ul>  |
| <b>Risk Assessment</b>               | <ul style="list-style-type: none"> <li>Many companies have not done a robust top down risk assessment for financial reporting that links significant accounts, assertions and risks at the consolidated, subsidiary, unit level or material investees as appropriate (SOX purposes).</li> <li>If framework is used for operational purposes but no robust risk policies and frameworks exist: challenge to implement/demonstrate concepts such as risk appetite, velocity and persistency.</li> </ul> |
| <b>Control Activities</b>            | <ul style="list-style-type: none"> <li>Evaluating the dependency and linkage between business processes, automated controls and GITCs.</li> <li>Precision and evidence of management review controls, etc. Accountability</li> </ul>  |
| <b>Information and Communication</b> | <ul style="list-style-type: none"> <li>Capturing internal and external sources of data</li> <li>Management considers and documents the source of data utilized in each control and the basis for reliability of such data. Many companies are finding that they have not assessed the completeness or accuracy of such data.</li> </ul>   |
| <b>Monitoring Activities</b>         | <ul style="list-style-type: none"> <li>Performing ongoing monitoring that controls are present and functioning - areas of opportunity – data or predictive analytics, etc.</li> </ul>   |

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## Transition Considerations

### ■ Judgment

- Framework does not prescribe the specific controls; it sets out the principles
- Need to evaluate all 17 principles, instead of just the 5 components
- Controls are the function of management's and the Board's judgments

### ■ Organizational boundaries

- Management retains responsibility for objectives; managing risks; selecting, developing and deploying effective controls over third-party service providers
- Increased importance of information and communication

### ■ Large vs. smaller entities

- Principles are applicable to all entities
- Different risks and different advantages to be considered

### ■ Explicit requirement that management consider risks related to fraud

### ■ Benefits and costs of internal control

### ■ Deferred maintenance of the organization's existing SOX program

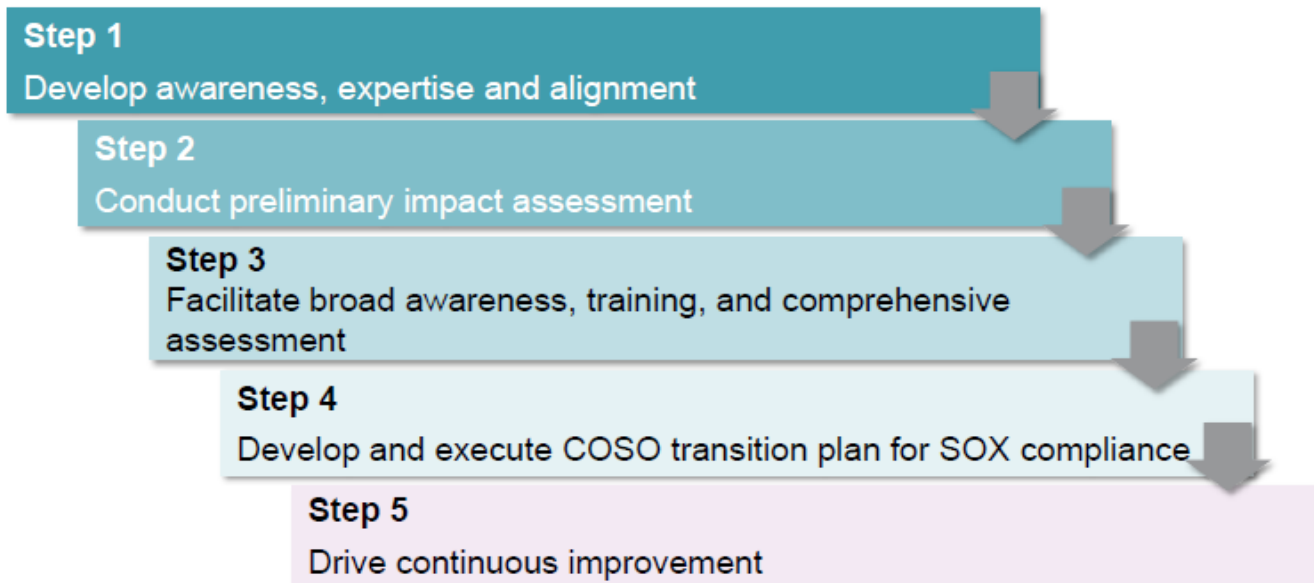
## Transition Timeline and Effort

- **COSO determined the 2013 Framework will supersede 1992 Framework effective December 15, 2014**
  - Pending SEC monitoring of the transition phase
- **Assess the implications of the 2013 Framework as soon as feasible**
- **Impact of adopting the updated Framework will vary by entity**
- **Organizations should disclose whether the 1992 or 2013 version of the Framework is used during the transition period**
- **Opportunity to take a fresh look**
  - at the efficiency and effectiveness of business processes, risk assessments, and controls responsive to the risks
  - at the ICFR assessment prepared under the 1992 Framework
- **Treat 2013 assessment as a “Dress Rehearsal”!**



## Transition Approach

- Transition from 1992 to 2013 COSO Framework might result in relatively few changes, but a transition process needs to be formulated and work should commence at an early date.
- COSO published “The 2013 COSO Framework & SOX Compliance – One Approach to An Effective Transition” by Stephen McNally (Campbell Soup) discussing the following five steps to transition:



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## Next Steps for Risk/Control Professionals

- **Get familiar with COSO 2013**
  - Education on and evaluation of the 2013 Framework changes.
- **Educate your Board, Audit Committee and company management**
  - Communicate the impact of the new Framework.
- **Plan how you will transition your organization**
  - Map the 17 principles and points of focus to your existing controls within each component to demonstrate where the relevant principles are present and functioning in support of the objectives.
  - Identify and discuss control design gaps with senior management and develop plans to remediate any such gaps.
- **Available resources**
  - KPMG Defining Issues No. 13-26, May 2013
  - The road to transition: COSO's Internal Control 2013 – Integrated Framework
  - COSO's McNally transition article

# Challenges in Local Context

## Challenges in Local Context

- **Not all companies required to adopt COSO framework**
  - No formal requirement means no change initiative
- **Focus on the form over substance**
  - Meet the appearance, not the essence
- **Management commitment**
  - The top management is expected to initiate the spirit to change
- **Internal control is perceived as control activities**
  - Control Environment should be the foundation
- **The need to exercise profesional judgment**
  - Need more judgment to design, implement and evaluate internal control
- **Demonstrate the 17 Principles**



## Challenges for Internal Auditors

- **Internal Audit viewed as control expert**
  - Develop awareness of new changes
  - Revisit the existing internal control framework
  - Evaluate whether the principles present and functioning
  - Map the gap and analyze the impacts
- **Execute Internal Audit Leadership Role**
  - Educate the Boards and Management of the change impacts
  - Obtain management support
  - Act as change agent to help management initiate the change
- **Internal Audit Competency**
  - Consider the availability of competency needed

***Thank you***

