



cutting through complexity

An Overview of the COSO 2013 Framework

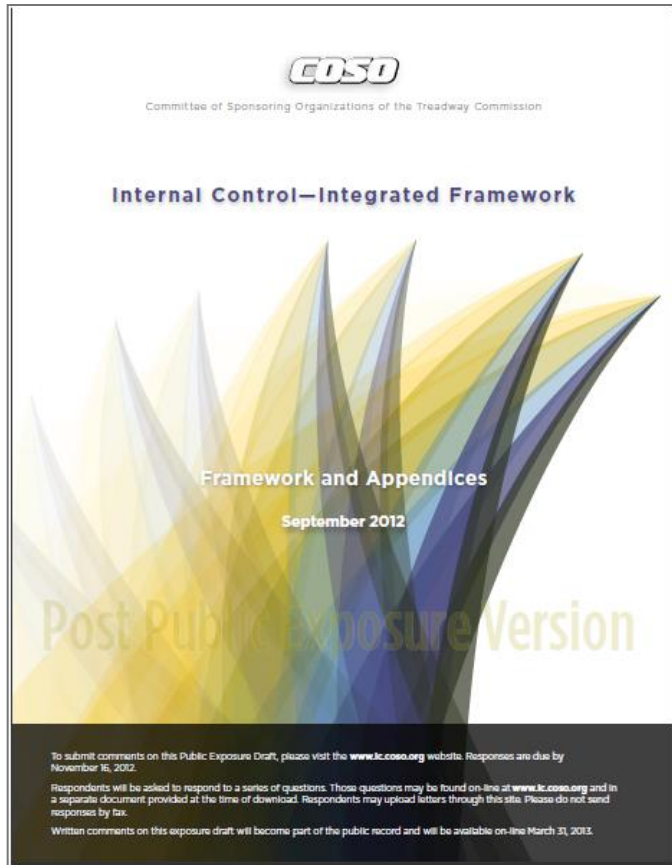
Presentation to the
Actuaries Club of the Southwest
June 19, 2014



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COSO 1992 Framework will be available until December 15, 2014, then superseded

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
- Implicit fundamental concepts underlying five components codified as 17 principles
- Updated for increased relevance and dependence on IT
- Addresses fraud risk assessment and response

Categories of Objectives

Objectives	2013 COSO Framework
Operations	<ul style="list-style-type: none">■ Relate to the effectiveness and efficiency of the entity's operations, including:<ul style="list-style-type: none">– Operational and financial performance goals– Safeguarding of assets against loss
Reporting	<ul style="list-style-type: none">■ Relate to internal and external, and financial and non-financial reporting, including:<ul style="list-style-type: none">– Reliability, timeliness, transparency, or other terms as set forth by regulators, standard setters or the entity's policies
Compliance	<ul style="list-style-type: none">■ Relate to adherence to laws and regulations and standards to which the entity is subject

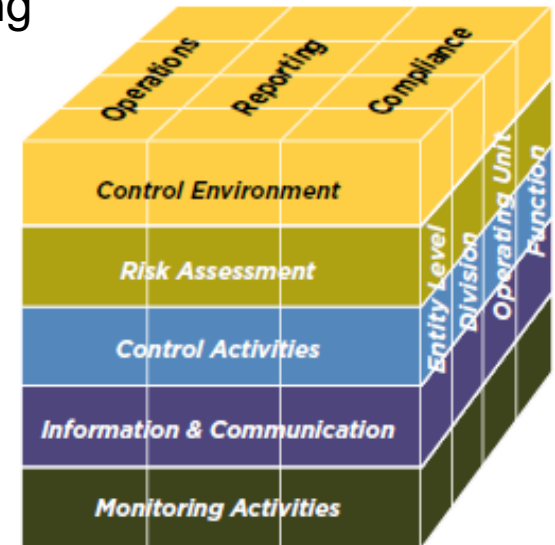
Definition of Internal Control Over Financial Reporting

Regulation 13a-15(f) defines Internal control over financial reporting as:

“A process . . . to provide reasonable assurance regarding the *reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles . . .*”

Includes policies and procedures that:

1. Maintain records in reasonable detail that accurately and fairly reflect the transactions and dispositions of the assets of the issuer
2. Ensures receipts and expenditures of the issuer are made only in accordance with authorizations of management and directors, and
3. Provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements



COSO Components and Principles

For effective internal control:

- Each of the five components and 17 principles must be present and functioning
- The five components must operate together in an integrated manner

Control Environment	<ol style="list-style-type: none">1. Demonstrates commitment to integrity and ethical values2. Exercises oversight responsibility3. Establishes structure, authority and responsibility4. Demonstrates commitment to competence5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none">6. Specifies suitable objectives7. Identifies and analyzes risk8. Assesses fraud risk9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none">10. Selects and develops control activities11. Selects and develops general controls over technology12. Deploys through policies and procedures
Information and Communication	<ol style="list-style-type: none">13. Uses relevant information14. Communicates internally15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none">16. Conducts ongoing and/or separate evaluations17. Evaluates and communicates deficiencies

Audit Considerations

- **Audit Risk** - The risk that the financial statements prepared by management are materially misstated and the risk that the auditor will not detect such material misstatement.
- **Risk of Material Misstatement** - The auditor's combined assessment of inherent risk and control risk; however, the auditor may make separate assessments of inherent risk and control risk.
- **Inherent Risk** - The susceptibility of a relevant assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls.
- **Control Risk** - The risk that a misstatement that could occur in a relevant assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected on a timely basis by the entity's internal control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's financial statements. Some control risk will always exist because of the inherent limitations of internal control.

Auditors are required to obtain an understanding of the insurer & its environment, including its internal control framework and to assess the effectiveness of that framework.

Major Deficiency and Material Weakness

COSO 2013

An effective system of internal control requires that:

- Each of the five components and relevant principles are **present** and **functioning** and,
- The five components operate together in an **integrated manner**

A **major deficiency** exists if the organization cannot conclude that these are met.

Major deficiency in one component or principle cannot be mitigated to an acceptable low level by the presence and functioning of another component or principle

Look across components and principles for mitigating controls to reduce the severity

Concept of material misstatement does not exist



SEC/PCAOB

Material weakness: a deficiency, or a combination of deficiencies, in ICOFR, such that there is a *reasonable possibility* that a *material misstatement* of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

- Considers magnitude and likelihood of misstatement
- Follow SEC and PCAOB criteria for defining and classifying the severity of deficiencies when reporting under those regulations or standards
- Cannot conclude that internal controls are effective under the 2013 Framework if a MW exists

Look for mitigating controls to reduce the severity

Additional Considerations

■ Judgment

- Framework does not prescribe the specific controls; it sets out the principles
- 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

■ Benefits and costs of internal control

Transactions

■ Due Diligence

- Important to assess the Internal Control Framework and effectiveness of control activities of potential acquisition targets
- Effectiveness of control environment is important to determine reliability of financial statements and other management assertions
- Indicators of potential internal control issues are typically found in auditor reports, management letters, internal audit reports, audit committee minutes, etc
- Significant adjustments to key financial statement line items are also an indicator of potential internal control issues

■ Execution

- Important to execute the transaction in a systematic, controlled manner
- Be vigilant for other control issues

■ Integration

- Consider to bring target's Internal Control Framework into consistency with acquirer as soon as it can be reasonably accomplished

Documentation

- Effective documentation of the organization's system of internal control is necessary to:
 - Provide evidence of its effectiveness
 - Enable proper monitoring
- Effective documentation is also useful:
 - For assigning responsibility and accountability to employees
 - Training new and experienced employees who implement and monitor the controls
 - Promoting consistency across the organization
 - Retaining organizational knowledge
- Higher level of documentation necessary when management asserts effectiveness of internal controls to regulators, shareholders and other third-parties
 - Document support for design and operating effectiveness of controls to auditors
 - Sufficiency of testing and judgments

Limitations of Internal Control

An effective system of internal control provides *reasonable assurance*, not *absolute assurance*, due to:

- Suitability of objectives established as a precondition to internal control
- Human judgment can be faulty and subject to bias
- Breakdowns due to human failures
- Management override of internal control
- Circumvention of internal control through collusion
- Events beyond organization's control

Transition: Timeline and Effort

- COSO determined the 2013 Framework will supersede 1992 Framework effective December 15, 2014
 - SEC monitoring of the transition phase
- Assess the implications of the 2013 Framework as soon as feasible
 - This is more than a simple mapping exercise
- 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
- Plan sufficient time for testing and remediation of deficiencies
- 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

Transition: Timeline and Effort (continued)

- Develop an effective Transition Plan to ensure that the organization benefits from the adoption of the 2013 Framework
- COSO published “The 2013 COSO Framework & SOX Compliance – One Approach to An Effective Transition” by Stephen McNally (Campbell Soup)
 - The article discusses a five-step transition process:
 1. Develop awareness, expertise and alignment
 2. Conduct a preliminary impact assessment
 3. Facilitate broad awareness, training and comprehensive assessment
 4. Develop and execute a COSO transition plan for ICFR assessment
 5. Drive continuous improvement
- Article is available on www.coso.org
- KPMG professionals are available to assist
 - COSO 2013 Evaluation Services toolkit for non-Audit clients
 - COSO 2013 Education and Transition tools for Audit clients

Contact Information

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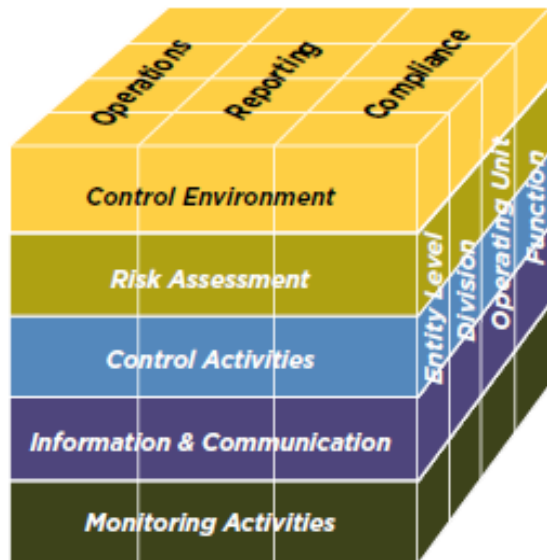
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Appendix

Control Environment

Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.



Control Environment – 2013 Framework Changes

- Captures seven (7) factors in 1992 Framework into five (5) principles
- Explains that Control Environment is the foundation for a sound system of internal control
- Expands and clarifies guidance on:
 - Governance roles in an organization, recognizing differences in structures, requirements, and challenges across different jurisdictions, sectors, and types of entities
 - Expectations of integrity and ethical values
 - Risk oversight and strengthening the linkages between risk and performance to help allocate resources to support internal control
 - The need to consider internal control across the expanded organization resulting from different business models, the use of outsourced service providers and other external partners

Control Environment: Principle #1 and Points of Focus

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

Points of Focus

■ Sets the *Tone at the Top*

- Board of Directors and management at all levels demonstrate through directives, actions and behavior the importance of integrity and ethical values to support functioning system of internal control

■ Establishes Standards of Conduct

- The expectation of the Board of Directors and senior management concerning integrity and ethical values are defined in Standards of Conduct and understood throughout 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 Standards of Conduct

■ Addresses deviations in a timely manner

- Deviations in Standards of Conduct are identified and remedied in a timely consistent manner
FR requirements

Control Environment: Principle #2 and Points of Focus

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

Points of Focus

- **Establishes oversight responsibilities**
 - The Board of Directors (BoD) identifies and accepts its oversight responsibilities in relation to the established requirements and expectations
- **Applies relevant expertise**
 - The BoD defines, maintains and periodically evaluate the skills and expertise needed to enable them to ask probing questions of senior management and take commensurate actions
- **Operates independently**
 - The BoD has sufficient independent members and is objective in evaluations and decision making
- **Provides oversight for the system of internal control**
 - The BoD retains oversight responsibilities for management's design, implementation and conduct of internal control

Control Environment: Principle #3 and Points of Focus

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

Points of Focus

- **Considers all structures of the entity**
 - Management and the BoD considers multiple structures (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 the flow of information to manage the activities of the entity
- **Defines, assigns, and limits authorities and responsibilities**
 - Management and the BoD delegate authority, define responsibilities and use appropriate processes and technology to assign responsibility and segregate duties at various levels of the organization (e.g., the Board; senior executives; management; personnel; outsourced service providers).

Control Environment: Principle #4 and Points of Focus

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

Points of Focus

- **Establishes policies and practices**
 - Policies and practices reflect expectations of competence necessary to support the objectives
- **Evaluates competence and addresses shortcomings**
 - The Board of Directors and management evaluate competence across the organization and at outsourced service providers in relation to established policies and practices and act as necessary to address shortcomings
- **Attracts, develops, and retains individuals**
 - The organization mentors and trains to attract, develop, and retain sufficient and 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 assignment of responsibility important for internal control

Control Environment: Principle #5 and Points of Focus

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

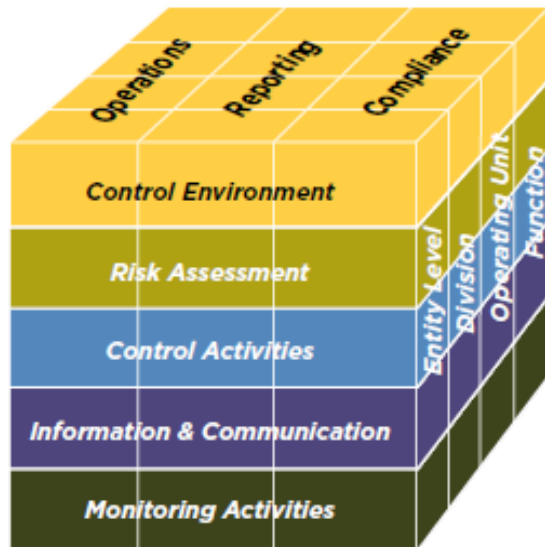
Points of Focus

- **Enforces accountability through structures, authorities, and responsibilities**
 - Establishes the mechanisms to communicate and holds individuals accountable for internal control responsibilities across the organization and implement corrective action
- **Establishes performance measures, incentives, and rewards**
 - appropriate for responsibilities at all levels of the entity, reflecting performance and Standards of Conduct, considering achievement of ST and LT objectives
- **Evaluates performance measures, incentives, and rewards for ongoing performance**
 - Aligns incentives and rewards with the fulfillment of internal control responsibilities in the achievement of objectives
- **Considers excessive pressures**
 - Evaluates and adjusts pressures associated with the achievement of objectives as they assign responsibilities, develop performance measures and evaluate performance
- **Evaluates performance and rewards or disciplines individuals**
 - Evaluates performance of internal control responsibilities, including adherence to Standard of Conduct and expected competence; provides rewards or disciplinary action as appropriate

Risk Assessment

Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

Management specifies objectives relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyze risks to those objectives. Risk assessment requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective.



Risk Assessment – 2013 Framework changes

- Clarifies that risk assessment includes processes for risk identification, risk analysis, and risk response
- Expands the discussion on
 - Risk tolerances (acceptable risk levels) and risk can be managed through accepting, avoiding and sharing risks
 - The risk severity beyond impact and likelihood to include such velocity and persistence
 - The need to understand significant changes in internal and external factors and the impact on the system of internal control
- Includes specific assessment of fraud risk relating to material misstatement of reporting, inadequate safeguarding of assets, and corruption as part of the risk assessment process

Risk Assessment: Principle #6 and Points of Focus

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

Points of Focus

- **Separately set out characteristics related to operations; external financial reporting; external non-financial reporting; internal reporting; compliance objectives**

External Financial Reporting Objectives

- **Complies with applicable accounting standards**
 - Financial reporting objectives are consistent with accounting principles suitable and available for the entity
 - 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

Risk Assessment: Principle #7 and Points of Focus

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.

Points of Focus

- **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

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

Points of Focus

- **Considers various types of fraud**
 - The assessment of fraud considers fraudulent reporting, possible loss of assets, and corruption [and management override of controls] resulting from the various ways that fraud and misconduct can occur
- **Assesses incentives 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

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

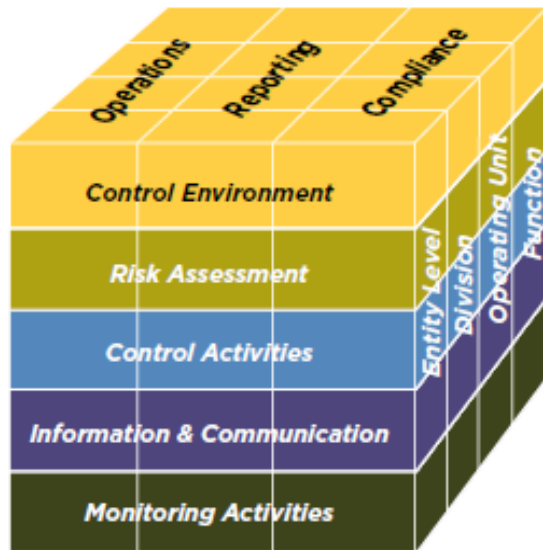
Points of Focus

- **Assesses changes in the external environment**
 - The risk identification process considers changes in the regulatory, economic, and physical environment in which the entity operates
- **Assesses changes in the business model**
 - The organization considers the potential impact of new business lines, dramatically altered compositions of existing 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 the management and respective attitudes and philosophies on the system of internal control

Control Activities

Control activities are the actions established through policies and procedures to mitigate risks to the achievement of objectives. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.



Control Activities – 2013 Framework changes

- Updates the evolution in technology since 1992 (e.g., replacing data center concepts with a more general discussion on the technology infrastructure)
- Addresses the linkage between business processes, automated control activities and GITCs
- Contrasts transaction-level controls from controls at other levels of the organization
- Updates GITC applicability (IT infrastructure; security management; technology acquisition, development and maintenance) across all technology platforms
- Clarifies that control activities are actions established by policies and procedures rather than being the policies and procedures themselves

Control Activities: Principle #10 and Points of Focus

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

Points of Focus

- **Integrates with Risk Assessment**
 - Control activities help ensure that the 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 affect the selection and development of control activities
- **Determines relevant business processes**
 - Management determines which relevant business processes require controls activities
- **Evaluates a mix of control types**
 - Control activities include a range and variety of controls; considering both manual and automated controls, and preventative and detective controls
- **Considers at what level controls are applied**
 - Management considers control activities at various levels of the organization
- **Addresses segregation of duties**
 - Management segregates incompatible duties and where not practical, selects and develops alternative control activities

Control Activities: Principle #11 and Points of Focus

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

Points of Focus

- **Determines dependency between the use of technology in business processes and GITCs**
 - Management understands and determines dependency and linkage between business processes, automated controls activities and GITCs
- **Establishes relevant Technology Infrastructure control activities**
 - . . . which are designed and implemented to help the completeness, accuracy and availability of technology processing
- **Establishes relevant Security Management Process control activities**
 - . . . which 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
- **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 objectives

Control Activities: Principle #12 and Points of Focus

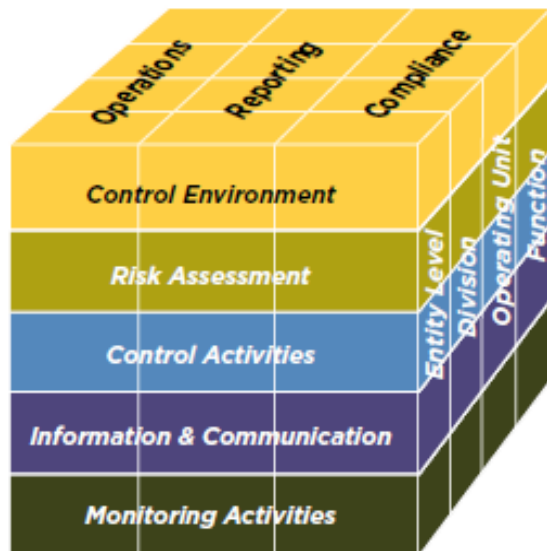
12. The organization deploys control activities through policies that establish what is expected and in procedures that put policies into action.

Points of Focus

- **Establishes policies and procedures to support deployment of management's directives**
 - Controls are built into business processes through specific policies and procedures
- **Establishes responsibility and accountability for executing policies and procedures**
 - Management assigns responsibility and accountability for the controls in the business unit or function where the risk resides
- **Performs in a timely manner**
 - Responsible personnel perform controls in a timely manner
- **Takes corrective action**
 - Responsible personnel investigate and act on matters identified as a result of executing the control
- **Performs using competent personnel**
 - Competent personnel with sufficient authority perform controls with diligence and continuing focus
- **Reassesses policies and procedures**
 - Management periodically reviews controls to determine their continued relevance and refreshes them when necessary

Information and Communication

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.



Information & Communication – 2013 Framework Changes

- Emphasizes importance of quality of information
 - Including how the entity manages information from and communicates with third-party service providers and those that operate outside its legal and operational boundaries
- Expands the discussion on
 - The impact of regulatory requirements on reliability and protection of information
 - The volume and sources of information in light of increased complexity of business processes, greater interaction with external parties, and technology advances
- Reflects the impact of technology and other communication mechanisms on the speed, means, and quality of the flow of information

Information and Communication: Principle #13 and Points of Focus

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

Points of Focus

- **Identifies information requirements**
 - A process is in place to identify the information required and expected to be support the functioning of the other components and achievement of the entity's objectives
- **Captures internal and external sources of data**
 - Information systems captures 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 components
- **Considers costs and benefits**
 - The nature, quantity and precision of information communicated is commensurate with and support the achievement of objectives

Information and Communication: Principle #14 and Points of Focus

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

Points of Focus

- **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 BoD so that both have information needed to fulfill their roles
- **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
- **Selects relevant method of communication**
 - The method of communication considers the timing, audience and nature of the information

Information and Communication: Principle #15 and Points of Focus

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

Points of Focus

- **Communicates to external parties**
 - Processes are in place to communicate relevant and timely information to shareholders, partners, regulators, customers, financial analysts and other parties
- **Enables inbound communications**
 - Open communication channels allow management and BoD to receive relevant input from customers, consumers, suppliers, external auditors, regulators, financial analysts, and others
- **Communicates with the Board of Directors**
 - Relevant information from assessments conducted by external parties is communicated to the BoD
- **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
- **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

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.

Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations.

Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.



Monitoring Activities – 2013 Framework changes

- Refines the terminology, where the two main categories of monitoring activities are now referred to as “ongoing evaluations” and “separate evaluations”
- Added the need for a baseline understanding in establishing and evaluating ongoing and separate evaluations
- Expanded discussion of the use of technology and external service providers

Monitoring Activities: Principle #16 and Points of Focus

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

Points of Focus

- **Considers a mix 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 process and adjust to changing conditions
- **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

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.

Points of Focus

- **Assesses results**
 - Management and the BoD assess the results of ongoing and separate evaluations
- **Communicates deficiencies**
 - Deficiencies are communicated to the parties responsible for taking corrective action and to senior management and BoDs, as appropriate
- **Monitors corrective actions**
 - Management tracks whether deficiencies are remediated on a timely basis



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