

COSO



The Committee of Sponsoring Organizations of the Treadway Commission

DePaul University Forum on COSO

An Overview of COSO's Current Activities and Future Direction

May 10, 2011

by David Landsittel
COSO Chairman

COSO



The Committee of Sponsoring Organizations of the Treadway Commission

About COSO

- Formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting (i.e. Treadway Commission)
- A joint initiative of five private sector organizations
- Sponsors:
 - American Accounting Association (AAA)
 - American Institute of Certified Public Accountants (AICPA)
 - Financial Executives International (FEI)
 - Institute of Management Accountants (IMA)
 - The Institute of Internal Auditors (IIA)





Board Members

- David L. Landsittel – Chairman
- Larry E. Rittenberg – Chairman Emeritus
- Mark S. Beasley – AAA
- Charles E. Landes – AICPA
- Marie N. Hollein – FEI
- Jeffrey C. Thomson – IMA
- Richard F. Chambers – IIA

The COSO logo is rendered in a bold, italicized, sans-serif font with a metallic, 3D effect. The letters are white with a blue outline and a blue shadow, giving them a sense of depth and weight.

The Committee of Sponsoring Organizations of the Treadway Commission

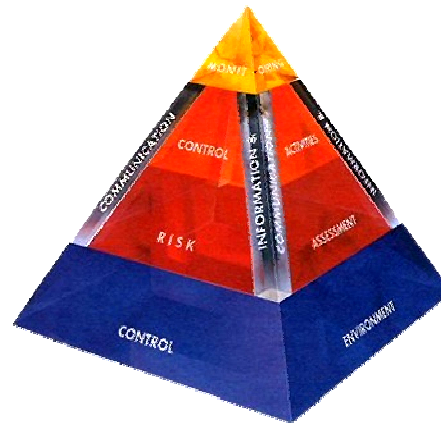
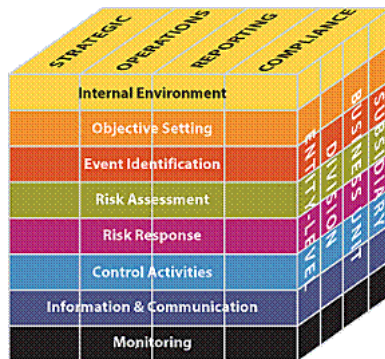
Mission

*“To provide **thought leadership** through the development of comprehensive frameworks and guidance on **enterprise risk management, internal control and fraud deterrence** designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.”*



COSO's Three Areas of Focus

1. Enterprise Risk Management
2. Internal Control
3. Fraud Deterrence





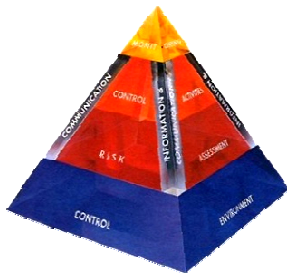
Timeline

1987: Treadway Commission Report

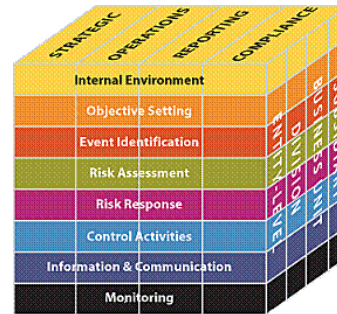
1996: Internal Control Issues in Derivatives

1999: Fraud Study I - Fraudulent Financial Reporting: 1987-1997

1992: Internal Control Framework



2004: Enterprise Risk Management Framework



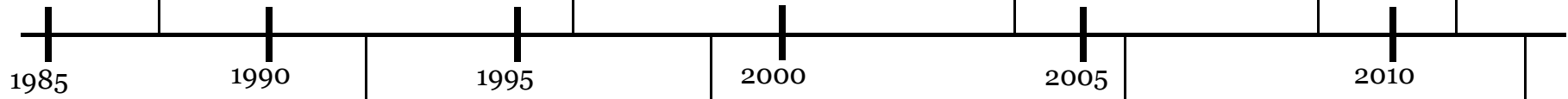
2006: Guidance for Smaller Businesses on Internal Control over Financial Reporting



2010: Fraud Study II - Fraudulent Financial Reporting: 1998-2007

2009: Guidance on Monitoring Internal Control Systems

2010-2011: Recent ERM thought papers on current issues





COSO Internal Control Framework

- First published in 1992
- Gained wide acceptance following financial control failures of early 2000's
- Most widely used framework in the US
- Also widely used around the world



The COSO logo is rendered in a bold, italicized, sans-serif font with a metallic, 3D effect. The letters are white with a blue outline and a blue shadow, giving them a sense of depth and weight.

The Committee of Sponsoring Organizations of the Treadway Commission

Some Current Internal Control Challenges

- COSO's framework objectives and components are timeless, but context is outdated
- Softer control environment attributes are hard to evaluate



“Refreshing” Our Internal Control Integrated Framework

- The overall goal of the project is to update the ICIF Framework originally published in 1992
- No anticipated change in definition, objectives, and components
- But updating context to reflect current environment – e.g.
 - **Technology**
 - **Governance**
- Adding more focus on operational and compliance control objectives, while still maintaining a clear path for application solely to financial reporting objectives

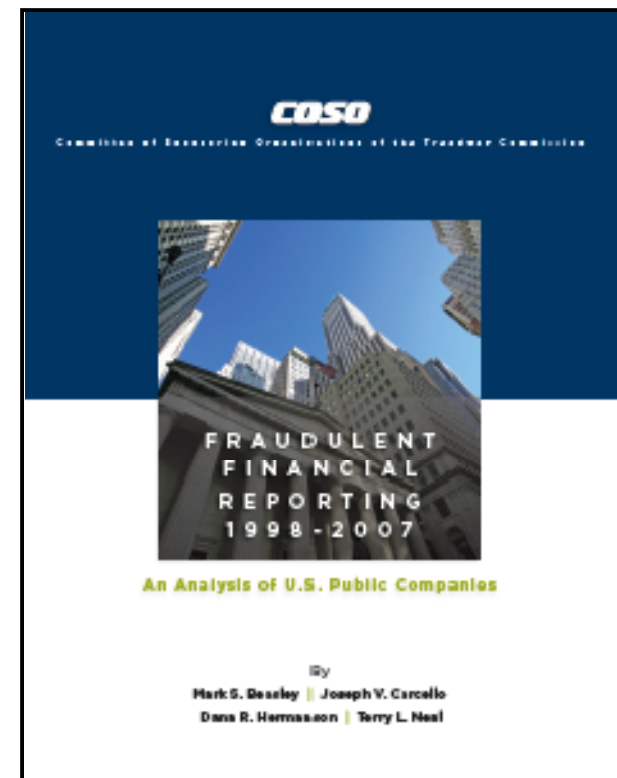
COSO



The Committee of Sponsoring Organizations of the Treadway Commission

COSO's Recently Issued Fraud Research Study

“Fraudulent Financial Reporting: 1998-2007, An Analysis of U.S. Public Companies”





Research Approach

- Identified fraud cases from SEC actions
- Analyzed fraud cases for:
 - Nature and size of the fraud
 - Fraud techniques
 - Individuals involved and their motivation
- Matched fraud companies with similar no-fraud companies (e.g. industry, size)
 - Compared governance characteristics
 - Compared subsequent consequences to companies and individuals



Key Findings

- Nature of Fraud Companies
 - Varying sizes large and small
 - Variety of industries
 - Often under financial stress
- Fraud techniques
 - Revenue recognition
 - Overvaluing assets
 - “Cooking the books”, not theft
- Alleged Perpetrators
 - 89% of cases – CEO and/or CFO named
 - Motivations include meeting expectations, concealing deteriorating financial condition, preparing for debt/equity offering



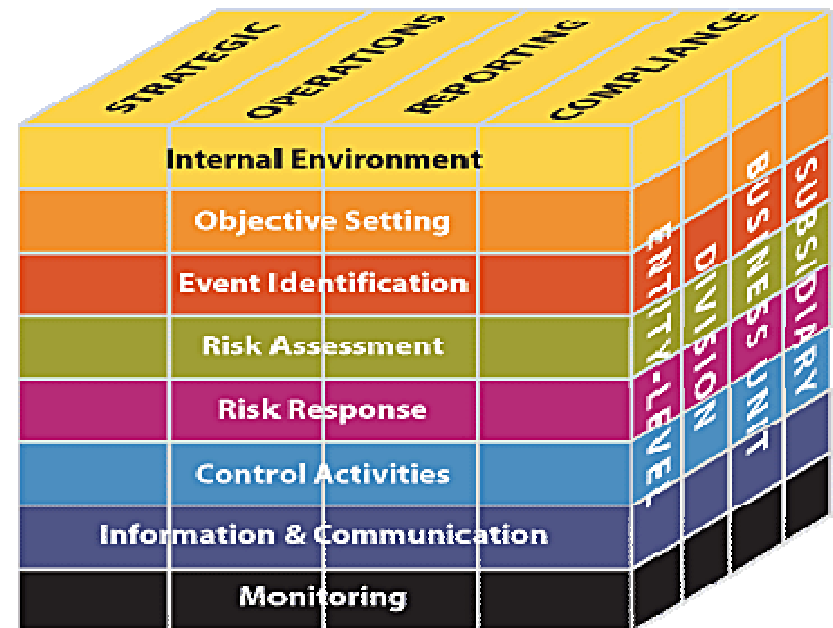
Key Findings - cont'd.

- Role of Board of Directors
 - Overall, few major differences between fraud and no-fraud firms in measurable attributes
 - Boards were similar in size, percentage of outsiders
 - Almost all fraud companies had audit committees with similar size and similar number of meetings as no-fraud firms



COSO ERM Framework

- Issued in 2004
- Widely but not universally used
- Implementation not as robust
- Gained visibility during recent financial crisis





Some Current ERM Challenges that Impact COSO

- Uneven support to adopt any formal risk management process
- Difficulty “getting started” with ERM implementation
- Failure to consider low likelihood but high impact risks – overconfidence
- Inadequate board oversight of risk management
- Less than robust ERM implementation – e.g. “Risk Appetite”



COSO ERM Response

Our objective – to assist stakeholders in moving up “maturity curve” of an effective ERM process





COSO ERM Initiatives

- “Effective Enterprise Risk Oversight: The Board of Directors” 9/1/2009
- “Strengthening Enterprise Risk Management for Strategic Advantage”
11/4/2009
- “Board Risk Oversight – A Progress Report” - 12/9/2010
- “COSO’s 2010 Report on ERM” - 12/9/2010
- “Embracing Enterprise Risk Management: Practical Approaches for Getting Started” - 1/11/2011
- “Developing Key Risk Indicators to Strengthen Enterprise Risk Management” - 1/11/2011
- “Risk Appetite” - A thought paper to be issued soon

COSO



The Committee of Sponsoring Organizations of the Treadway Commission

COSO Looking Ahead - A Recap of Our Future Focus

- Research and guidance on the control environment
- Pursuit of behavioral and other “soft side” research – e.g. “rationalization” and overconfidence
- Periodic “thought papers” on hot topics
- “Refreshing” our *Internal Control Integrated Framework*

COSO



The Committee of Sponsoring Organizations of the Treadway Commission

Thank You

David Landsittel