

December 4, 2012

Response e-mailed to www.ic.coso.org

RE: COSO Internal Control – Integrated Framework – Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples (ICEFR), September 2012

Dear Sir/Madam:

The Institute of Internal Auditors (IIA), as the standards setting body for the international profession of internal auditing, has a passion for guiding organizations to achieve the highest standards of governance, risk management, and control designed to fulfill an organization's strategic objectives in the most efficient, effective, and sustainable manner possible. The IIA became an original member of the Committee of Sponsoring Organizations (COSO) and continues to this day to champion the governance principles that our COSO partners espouse.

The IIA's President and Chief Executive Officer serves on the COSO board and we have volunteer leaders serving on the Advisory Council and in other supporting capacities. As The IIA's Chairman of the Board, I am pleased to offer our membership's perspectives on the revised exposure draft.

The following are our principal comments and observations. Detailed responses to the questions posed in the Feedback Survey, and other matters related to the document, can be found in Attachment A.

1. We appreciate the clarifications made to the previously described attributes. We believe the description of the points of focus is appropriate, but have some concern that practitioners will need to be vigilant in applying the Framework's components and principles rather than using the points of focus as a checklist. We expect healthy conversation to occur amongst management, auditors, and regulators, who may presume that one, several or all listed points of focus should be present, regardless of the situation. The design and assessment of internal controls is a management and auditing function that requires the judgment of experienced professionals based on the specific facts, circumstances, and materiality of the process. We believe the document could add clarification by making the changes noted in our Feedback Survey response and the following change in paragraph 111:

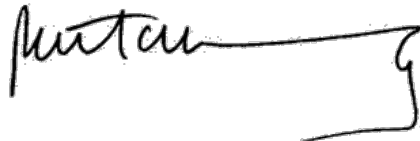
"The Framework does not recommend or suggest that management must assess separately whether all points of focus are in place."

2. We have some concern with the separation of this internal control framework from the broader enterprise risk management concept given that internal controls are a fundamental aspect of the management of risk related to accomplishing an organization's objectives. Controls mitigate risks and risk mitigation optimizes execution of objectives which are designed to achieve strategic goals. We agree the Framework is valuable as a stand-alone document. However, we recommend that the introduction to the Framework explain the context of the role of internal controls to better put this Framework in its overall context.

Thank you again for the opportunity to provide comments and the extension period to compile these comments.

The IIA welcomes the opportunity to discuss any and all of these recommendations with you. We offer our assistance to COSO in the continued deployment of the Framework and supporting guidance.

Best Regards,

A handwritten signature in black ink, appearing to read "Philip D. Tarling". The signature is written in a cursive style and is enclosed within a simple rectangular box.

Philip D. Tarling, CIA, CRMA, CMIIA
Chairman of the Board

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 107 Institutes in 190 countries that serve members at the local level.

COSO Feedback Survey

Appendix A

Section A: Profile

1. What is your COSO Affiliation?

American Accounting Association
American Institute of Certified Public Accountants
Financial Executives International
Institute of Management Accountants

The Institute of Internal Auditors

Multiple COSO affiliations
Other
None of the above

Comment – The Chairman of the Institute of Internal Auditors as supported by IIA's Professional Issues Committee responding on behalf of the global membership of the Institute.

2. Are you responding on behalf of yourself or an organization or company?

Company/organization

Self (your own opinion)

Comment - We are responding on behalf of our global organization, the Institute of Internal Auditors. The IIA represents more than 180,000 members across the globe and has 107 Institutes in 190 countries that serve members at the local level.

3. What is your entity's legal structure?

Public company
Private company
Government

Not for profit, society, etc

Other

Comment - None.

4. What is your entity's revenue?

> \$5 billion in revenue
\$700 million to \$5 billion in revenue
\$75 million to \$700 million in revenue
< \$75 million in revenue
Prefer not to respond or don't know
NA – we do not have revenue

Comment – Not Applicable

5. What is your role within the organization?

Academic / Learning & Education

Board of Directors / Trustees
Chief Executive Officer
Compliance
Consulting
Enterprise Risk Management / Risk Management
Environmental Compliance
Financial/Accounting
Human Resources
Information Technology
Insurance
Internal Audit
Legal/General Counsel
Logistics
Market and/or Credit Risk Management
Marketing and Sales
Operational Risk Management
Operations Management
Procurement
Product Development
Quality Management
Strategic Planning
Treasury

X Other (please explain) - Guidance Development

Comment - Professional Issues Committee for the IIA.

Section B: Feedback on ICEFR

6. Does your organization apply the 1992 COSO Framework to external financial reporting objectives?

X Yes
No

Comment: Many of our members – through their organizations – apply the 1992 Framework.

7. The ICEFR document will be useful in applying the Framework to your entity's external financial reporting objectives

X Strongly Agree
Somewhat Agree
Neither Agree nor Disagree
Somewhat Disagree
Strongly Disagree

Comment - Comments are on behalf of our IIA membership and their affiliated organizations.

All responses are based on this perspective.

ICEFR provides useful examples of how to apply the Framework and will help stimulate discussion on ways to achieve effective controls in external reporting.

8. The ICEFR document will impose additional burdens on entities' reporting on the effectiveness of internal control – e.g. reporting on internal control over financial reporting based on Sarbanes–Oxley Act of 2002 (SOX) requirements

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment - It requires a full reassessment based upon new principles. All “relevant” principles must be present and that may create new requirements for many entities, even though they have previously been assessed as complying with the 1992 Framework. However, we are encouraged that the new draft specifically did not require a conclusion on each component, recognizing that they are interrelated. Shortfalls in one component can be offset by compensating controls in other components.

9. The ICEFR document is relevant for both larger and smaller entities

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment - The components and principles are relevant for entities of all sizes.

10. The ICEFR document is relevant for private, not-for-profit and government entities

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment - Terms have been made more generic to apply to all types of entities.

11. The ICEFR document's approaches and examples clearly illustrate principles set out in the Framework

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment – None

12. Additional approaches and/or examples are needed to illustrate the principles. If yes, please explain

Yes

No

Comment: With many companies outsourcing key operations, examples to highlight the risks and controls of outsourced operations would be beneficial.

Specifically, given the significance of outsourcing IT, accounting, and operations such as logistics that involve achievement of reporting, operations and compliance (e.g., with anti-bribery, tax and customs regulations) objectives, it would be helpful to discuss application of the Framework from the perspectives of the outsourced service providers, i.e., what should they be doing proactively vs. reacting to requirements from their customers.

13. Other comments on the ICEFR Discussion document

Comment - None

Section C: Feedback on Framework, Executive Summary, and Appendices

14. The expanded reporting objective set forth in the Framework does not diminish my ability to apply the Framework in an ICEFR context

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment – None

15. The Framework appropriately discusses the role and relevance of components, principles, and points of focus

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment – Regardless of the explanation of the purpose of the points of focus, their incorporation into the Framework could confuse readers and practitioners.

The approaches and examples do illustrate options for implementation of the principles. There is a risk that without additional guidance and future ongoing diligence by the COSO members, illustrated points of focus examples could be interpreted as an expected element of the corresponding principle.

We recommend the following change in paragraph 111:

The Framework does not recommend or suggest that management must assess separately whether all points of focus are in place.

While the overall intent of the points of focus is explained in paragraphs 111-114 – the writing team should consider a footnote under each points of focus introduction in each of the component sections to resolve any potential for misunderstanding.

For example, at the end of paragraph 166 add the following footnote:

The following points of focus may assist management in determining whether this principle is present and functioning:¹

¹In designing and implementing a system of internal control, management may determine that some of these characteristics and points of focus are not suitable or relevant and may identify and consider others that are based on specific circumstances of the entity. Management should identify those characteristics specific to the entity that assist management in validating that the principle is present and functioning in an effective and efficient manner consistent with the organization's risk tolerance.

16. The Effective Internal Control chapter provides a clear understanding of the requirements for an effective system of internal control

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment – See comment to question 17 below.

17. The Framework appropriately requires that each of the five components be present and functioning for effective internal control

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment - The wording of this requirement is somewhat contradictory and hard to rationalize. In one paragraph, paragraph 95 of the ICIF states that “each component should not be viewed discretely, and it is an interrelationship of the existing functioning of the components that must be concluded upon as to whether the overall system of internal controls is effective.” Yet paragraph 92 states that each component must be present and functioning and operating together in an integrated manner, which requires viewing each component discretely as to present and functioning.

18. The Framework appropriately requires that relevant principles be present and functioning for effective internal control

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

Somewhat Disagree

Strongly Disagree

Comment – None

19. The Framework appropriately balances discussions regarding reporting, operations, and compliance objectives

Strongly Agree

Somewhat Agree

Neither Agree nor Disagree

X Somewhat Disagree
Strongly Disagree

Comment - Operations and Compliance are critical from the business perspective. We recommend expanding coverage with additional guidance and compendia similar to what was done with external financial reporting to facilitate adoption of the Framework for these important objectives.

20. The Appendix E: Consideration of Public Comment Letters is clear and provides an understanding of the revisions made to the Framework, Exposure Draft (December 2011)

X Strongly Agree

Somewhat Agree
Neither Agree nor Disagree
Somewhat Disagree
Strongly Disagree

Comment - None

21. The Appendix F: Summary of Changes to the Internal Control-Integrated Framework Issued in 1992 is clear and provides an understanding of the changes made

X Strongly Agree

Somewhat Agree
Neither Agree nor Disagree
Somewhat Disagree
Strongly Disagree

Comment - None

22. Other comments on the Framework

Thank you for your efforts and diligence in the refinement of the important guidance.