

REVIEW OF THE CONTRIBUTION OF COSO IN THE FIELD OF INTERNAL CONTROL MANAGEMENT

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ABSTRACT

The internal control management has been relied and stressed upon by the corporate sector worldwide in the recent times. The corporate governance norms and codes have provided for the setting up of internal control systems in place in the auditing committees in the listed companies. Not only the listed companies but every those entities which are exposed to the market risk need to focus on the internal control system so that they are able to face the dynamics of the business environment. For providing the basis and recognition to the internal control management, Committee of Sponsoring Organizations of the Treadway Commission (COSO) has provided the justification to the internal control systems as a process for the mitigation and identification of corporate risk. This paper reviews the contributions of the COSO in the setting up of internal control systems in corporate bodies.

KEYWORDS: COSO, Internal Control, Corporate Governance, Risk Management, Internal Audit.

Introduction:

The committee of Sponsoring Organizations of the Treadway Commission (COSO) is a US based corporate think-tank. The COSO undertakes the studies related to the performance improvement and risk management in the fields of economic upliftment and sustainability. In the year 1992,

the COSO has evolved the term internal controls as a measure of performance evaluation and risk management. The COSO has defined the internal controls as a method adopted by the management of a corporate unit to provide assistance for the achievement of goals and objectives of the company.

The COSO internal Control system:

The internal control integrated framework was given by the COSO in the year 1992 followed by a revision in the year 2013. The internal control framework provides for the following objectives of the framework :-

1. Basic or operational objectives
2. Reporting objectives
3. Compliance or concluding objectives

All the abovesaid objectives covers all the processes and procedures undertaken by the corporate body from the initial stage of transaction to the reporting of the transaction in the financial statements. The objectives at the operational levels covers the primary activities, identification of the risk therein and safeguarding the resources of the company. The reporting objectives of the framework describes the reporting methods and their realilbty and transparency so as to make the corporate reporting a responsible reporting. The compliance objectives of the framework prescribe that the internal control system always adhere to the laws and regulatory standards to which a corporate body is a subject.

Elements of the COSO framework

The COSO internal control system is a composition of the following elements or components-

1. Control business environment- the business environment needs to be controlled and put in place to work in favor of the organization. The COSO control environment approach includes the integrity and ethical behavior of the business. The control business environment approach also tries to retain the competent individuals by offering the favorable performance evaluation, incentives and promotions. If the business environment is controlled as per the COSO framework the overall performance of the risk mitigation strategies will be a positive one.
2. Risk measurement – the risk is pervasive and found in the all the business and commercial activities. Every business unit is exposed to the risk in one way or the other. The risk comes from outside as well as inside. The risk needs to be contained. The risk needs to be minimized. The risk needs to be used as an opportunity. All this is possible when the COSO risk measurement technique is adopted which prescribes that the risk needs to be identified, taken seriously and addressed properly.
3. Control processes – the COSO framework prescribes that all the activities or policies and procedures should be given to all those dynamic activities.
4. Communication – the framework provides and advocates the importance of the business communication in the identification and mitigation of

commercial risk. The communication plays an important role in engaging the employees for the adoption of internal control techniques and procedures.

5. should be under the control of the management at various levels. No business activity should be left without address or treatment. In the changing environment the nature of the activities becomes dynamic and a proper address
6. Measuring performance- all the activities of the commercial unit needs to be evaluated and individual address should be given in case of any deviation. The comparison and solution should happen at the synchronized moments.

COSO Integrated framework for internal control



COSO Framework on Internal Control System

The above chart clarifies the relation between the components and the objectives of the COSO Framework on Internal Controls. The chart depicts that the components and the objectives are inter-related and are synchronized for the setting-up of the internal control system within an entity undertaking the commercial activities and exposed to the commercial risks. The chart also clarifies that all the objectives and components work at all levels of the business and authority in an organization. All the three functions of the COSO Framework on the Internal Control Management work in tandem in all the activities at all levels of any corporate body.

The COSO framework has enunciated the internal control mechanism to detect and manage the risks and opportunities for the business performance of the listed corporate units. The internal control system has been mandated by the various governments in their codes of corporate governance. The UK combined code of corporate governance has mandated the compulsory adherence to the internal control system based on COSO framework. The internal control system as proposed by the code has derived all the suggested principles and directives from the integrated framework of COSO on internal control mechanism.

The Sarbanes oxley norms along with the listing agreement of newyork stock exchange has also prescribed the mandate of internal control system to be adopted and adhered by the corporate bodies listed on the newyork stock exchange or any other exchange in the United States.

The Australian stock exchange (ASX) listing agreement has also advocated for the setting up of internal control mechanism as suggested by the COSO. All the listed companies are compulsorily required to comply with the requirement of ensuring the internal control system in the audit committees of the board of directors of those companies.

The Singapore exchange has also made it compulsory for the listed companies to comply with the internal control system to be in place as a tool of risk mitigation. All those companies who have their shares listed on the stock exchange in Singapore are required to have a code of conduct in which the provision for the internal control mechanism is recommended to

be established for the compliance of the same by the corporate boards.

In India also the securities market regulator, Securities and Exchange Board of India has mandated all the stock exchanges within the country to make a compulsory requirement in their respected listed agreements for the internal control systems to be put in place by the companies desirous of getting listing of their shares on the stock exchanges.

The monetary authority of Malaysia has also advocated for the internal control systems to be put in place by the listed companies for the sake of ensuring and establishing best practices in the fields of corporate governance and compliance.

DISCUSSION

As discussed above it can be said that COSO integrated framework on internal control system has been widely discussed and accepted to be integrated in the corporate regulation. The suggested internal control system has become the backbone of the corporate governance practices worldwide. The internal control has also been advocated by the corporate sector for its benefits to be integrated in their corporate policies and strategies. The COSO suggested internal control mechanism has evolved a realized sentiment towards the identification of internal as well as external risks and threats posed with the opportunities.

APPLICABILITY

The COSO integrated framework on internal control system has provided the solutions for the risk identification and mitigation at the following levels of a business organization.

1. The operational level- the COSO has provided that the applicability of integrated framework has its applicability to the operational activities of the organization. The operational activities are mainly exposed to the internal risk and same needs to be identified and addressed by the same operational activities. This concept has generated the principle “treat as diagnosed” .

2. Functional level- the reporting and supervision of the operational activities happens to be at the functional levels. The functional supervisors need to implement the COSO framework taking the control environment approach identifying and managing the risk. The functional has needed to implement the COSO

integrated framework in their operational strategies and policies of their respective functional areas.

CONCLUSION

Based on the above discussion it is evident that the internal control management has become a vital issue to be taken care of while designing the corporate and business strategies. Almost every code of corporate governance has advocated for the internal control systems to be established by the corporate units. It has also been found that the role of internal control is the tool of risk containment and wealth maximization of the shareholders. The COSO integrated framework on internal control has been accorded by the governments across the boundaries. It has also been found that not only the mandated requirement is being taken care of but the voluntary adoption and implementation of the same is being carried on by the private investors, corporate managers, administrators and board of directors along with their audit committees.

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