Assessing Internal Control - COSO

COSO, known as the Committee of Sponsoring Organizations of the Treadway Commission, is a merger initiative of five organizations in the private sector. The organizations are; American Accounting Association (AAA), American Institute of Certified Public Accounts(AICPA), Financial Executives International (FEI), Institute of Management Accountants (IMA), The Institute of Internal Auditors (IIA). The organization is dedicated to providing internal control, fraud deterrence, and providing thought leadership through frameworks. (COSO, n.d.)

Internal controls are procedures applied and implemented by a company to ensure the integrity of information regarding finance and accounting, preventing fraud, and promoting accountability (Kenton, 2020). Financial management assertions are claims that are made by the management regarding specific aspects of a business.

The COSO internal control – Integrated framework came into being after the recommendations of the Treadway Commission were released. The document is responsible for providing guidance based on principles for the design and implementation of internal controls. The framework was developed by COSO in response to the needs of senior executives for effective ways to control their enterprises in a better way and ensure that objectives of the organization related to reporting, compliance, and operations are achieved. The framework has taken over and is the most used in the US. Besides, it has been adopted by many countries in the world. However, in 2014, the framework was superseded by the 2013 Internal Control.

The financial management assertions are used primarily to audit the financial statements of a company whereby auditors rely on several assertions regarding the business. Audit tests are conducted in testing the validity of the assertions. Management assertions are classified into; Transaction-level assertions where this assertion is classified into accuracy, classification, completeness, cutoff, and occurrence. The second assertion is account balance assertions where assertions are ending balances in accounts and so related to balance sheet. They are classified into; Completeness, existence, valuation, and rights, and obligation. The third assertion is presentation and disclosure, where this assertion relates to the presentation of information. The assertion is classified into five assertions; Accuracy, completeness, occurrence, rights and obligations, and understandability.

COSO's internal controls and management assertions have a close link. The two complement each other in attaining objectives of fighting fraud and ensuring transparency. As internal controls ensure that the activities carried out in the company follow procedures that will ensure integrity, management assertions help put in place policies that will guide these procedures. On the other hand, through management assertions, the management puts guidelines that control how business is carried on. These guidelines are put in place through claims from the management. To check whether these guidelines are followed, internal control becomes the tool to do so.

There is a lot of importance in conducting an assessment for integrated auditing since the auditor familiarizes himself with the company's flow of transactions. With this, engagement teams choose the critical controls to test. Secondly, they are engaged in testing of management review controls. This acts as a detective control. The third one is the testing of system-generated data. Therefore, it shows that auditing is directed into where possible hitches may be found when conducting the assessment.

In conclusion, the merger of five companies has led to COSO's formation, which has helped maintain credibility, transparency, and fighting off fraud.

Reference

COSO. (n.d.). COSO: Welcome to COSO Internal Control- Integrated. Retrieved from Framework.www.coso.org/Pages/default.aspx

Kenton, W. (2020). Investopedia: Internal Controls. Retrieved from [www.investopedia.com/terms/i/internalcontrols.asp](https://www.investopedia.com/terms/i/internalcontrols.asp)