

Summary of

COSO's Publication on:

**INTERNAL CONTROL OVER
SUSTAINABILITY REPORTING**

**Achieving effective internal control over
sustainability reporting Publication was
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COSO ICSR Executive Summary

Combining sustainability and financial expertise is crucial for effective management



- The thought paper emphasizes value of internal controls beyond financial reporting.
- Framework expanded to include non-financial and sustainable data.
- Integration of sustainability and finance teams improves reporting and data quality.
- Internal controls foster value creation, ethical practices, and responsible decision-making.
- Shift towards sustainability and ESG reporting since 2017. Companies implementing controls for sustainability reporting.
- Concern remain about the reliability & accuracy of sustainable business information

To download the Original COSO ICSR Publication Visit:-
<https://www.coso.org/Shared%20Documents/COSO-ICSR-Press-Release.pdf>

Introduction and Background

The COSO Internal Control Integrated Framework was developed in 1992 to address fraudulent financial reporting



In 2013, the framework underwent a major revision, expanding its scope to include all forms of reporting, including sustainability and ESG reporting

- Sustainable business information is increasingly accessible through software applications and platforms.
- Companies integrate sustainable information with traditional performance metrics to **identify risks** and **opportunities and develop value creation strategies**.
- **Concerns remain about the reliability and accuracy of sustainable business information.**
- **The challenge is to establish an ecosystem that ensures accurate and reliable sustainable business information.**



COSO



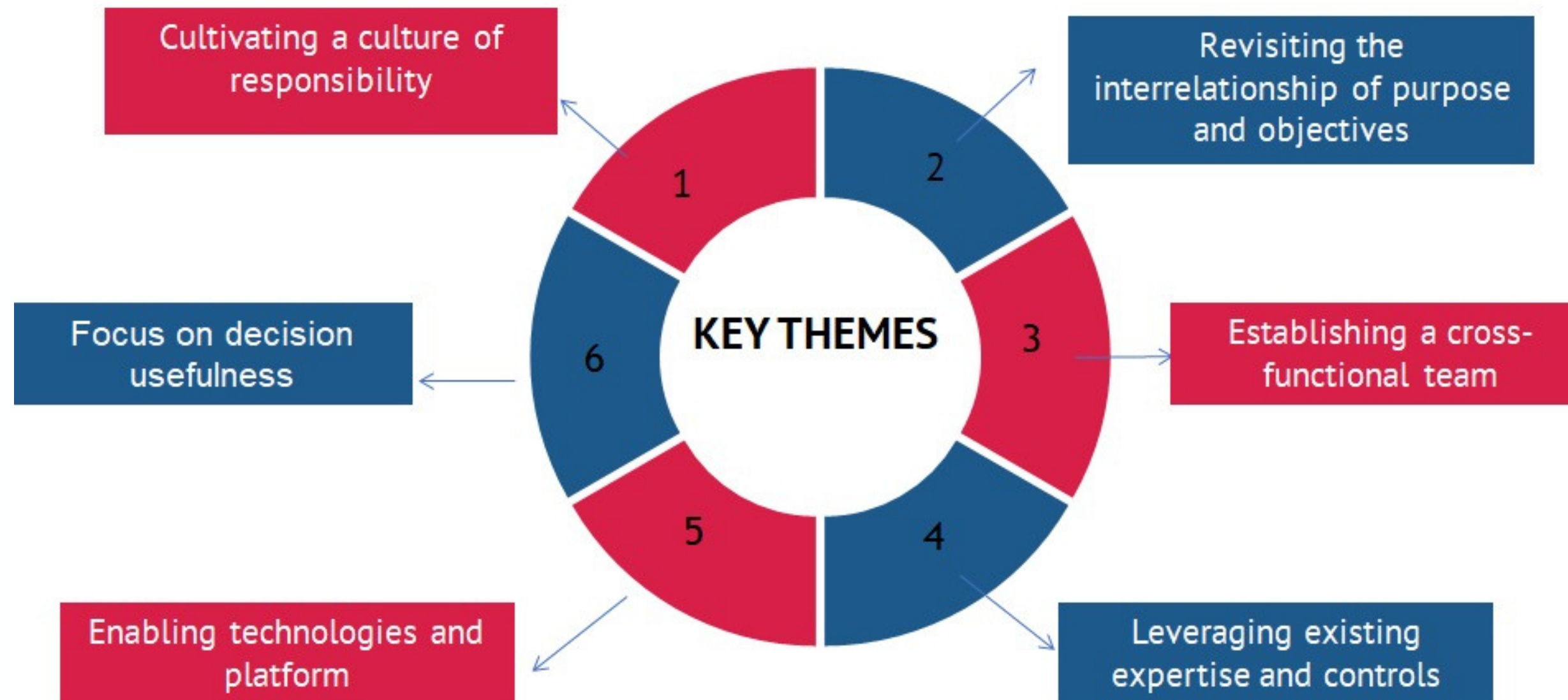
COSO Framework benefits

- Alignment with purpose
- Enhanced data quality
- Improved decision-making
- Better risk management
- Increased market efficiency
- Improved access to capital

Who benefits from COSO's ICSR framework

- Capital Markets
- Public Policy Entities
- Customers
- Employees
- Suppliers
- BOD (Sr.Management)

Organizations are increasingly focusing on establishing and maintaining effective internal control systems for financial and sustainable business information.



Components

1. Control Environment

Commitment to integrity and ethical values

Independent BOD oversight

Structures, reporting lines, authorities and responsibility

Attract, develop and retain competent people

People held accountable for internal control

2. Risk Assessment

- Clear objectives specified
- Risk identified to achievement of objectives
- Potential for fraud considered
- Significant changes identified and assessed

3. Control Activities

- Control activities selected and developed
- General IT controls selected and developed
- Controls deployed through policies and procedures

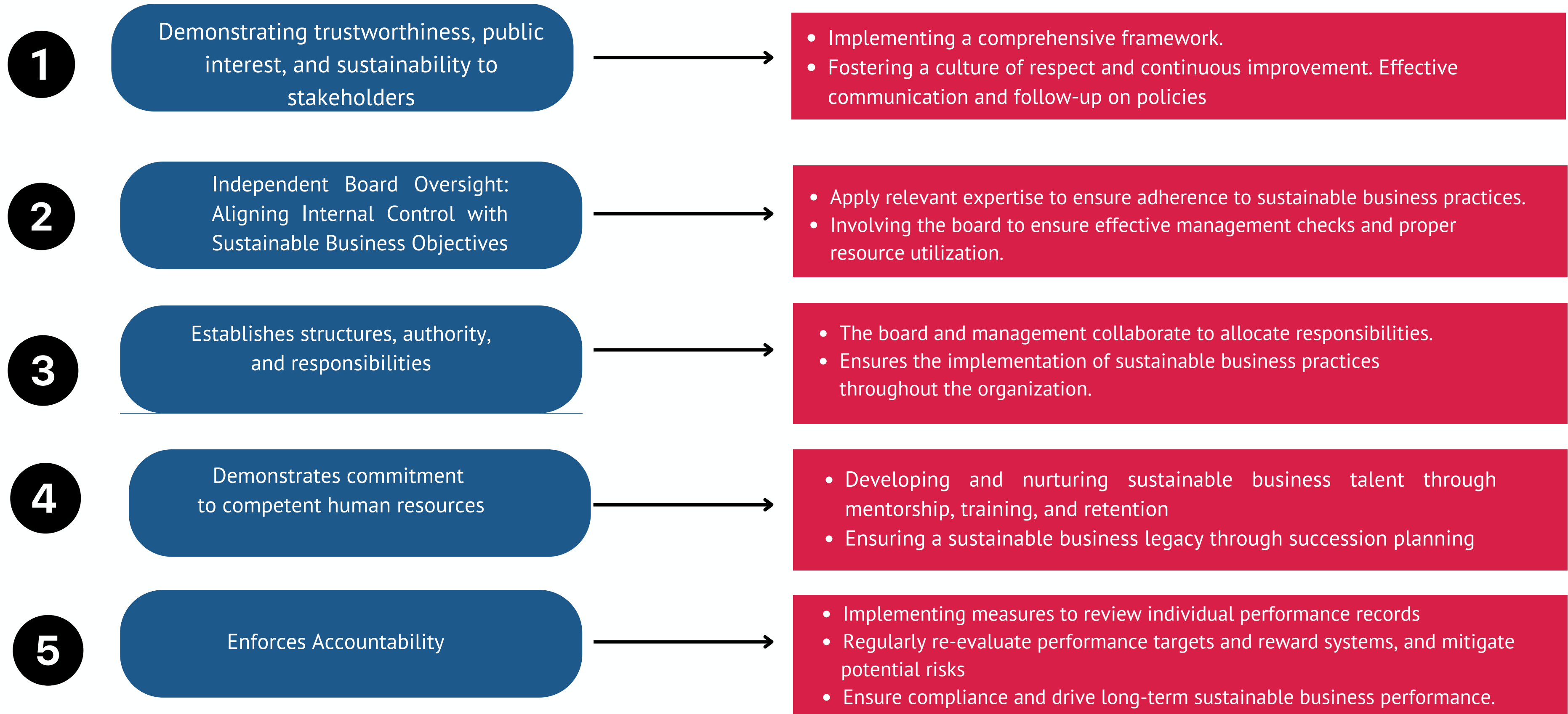
4. Information & Communication

- Quality information obtained, generated and used.
- Internal control information internally communicated
- Internal control information externally communicated

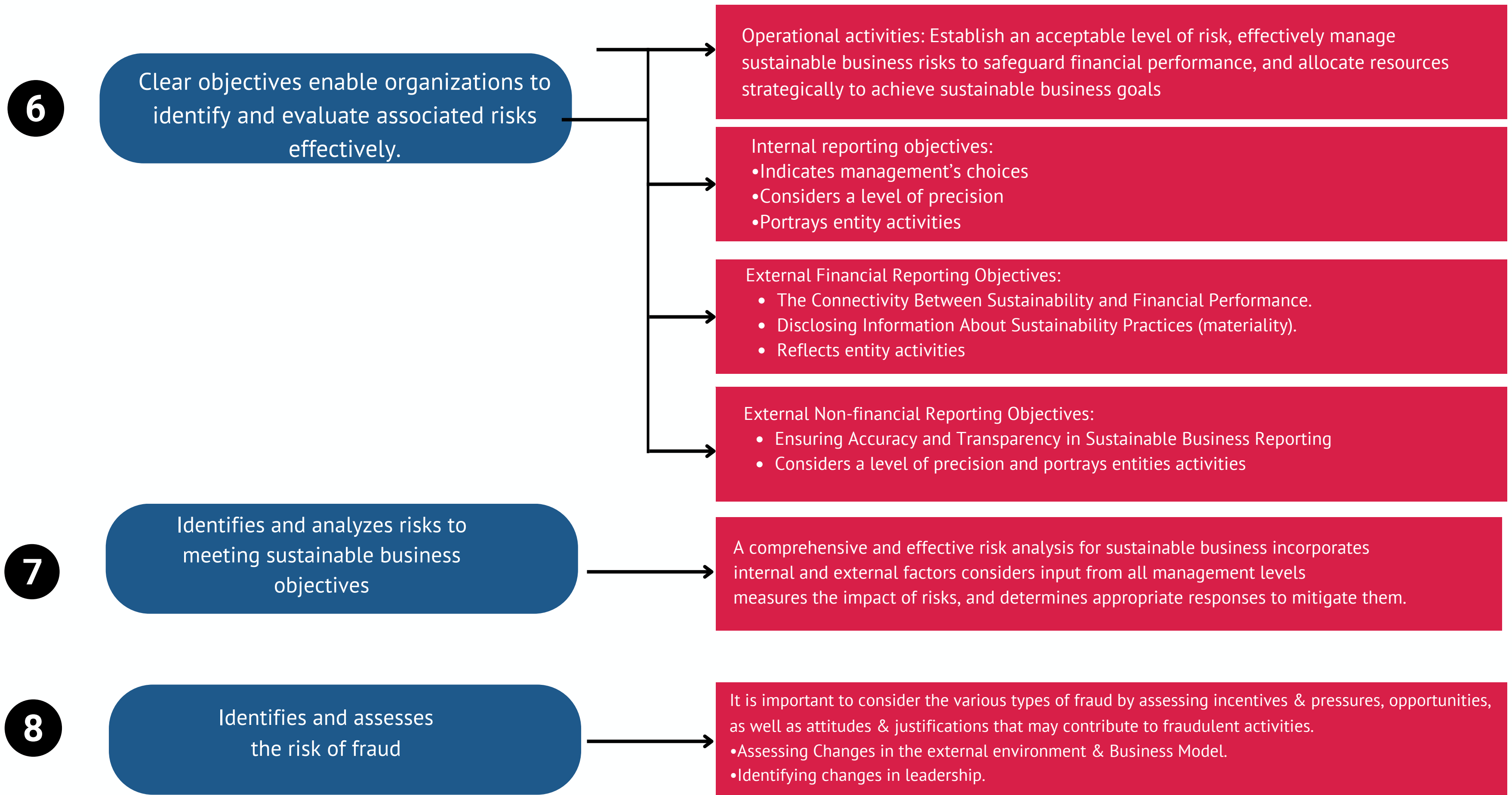
5. Monitoring Activities

- On going an/or separate evaluation conducted.
- Internal control deficiencies evaluated and communicated

POINT OF FOCUS- 1. Control Environment



POINT OF FOCUS- 2.Risk Assessment



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Selecting and Developing Control Activities to Mitigate Risks



Oversight activities and risk assessment require a tailored approach that considers the unique characteristics of the business, including relevant processes, a mix of control activity types, the level at which activities are applied, and the segregation of duties, to effectively mitigate risks and support sustainable business objectives

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Selects and develops general controls over technology



Establishing technology infrastructure control activities, including ensuring completeness, managing dependencies between technology and business processes, implementing security management processes, and controlling technology acquisition, development, and maintenance processes, is crucial for maintaining an effective and secure technological environment within an organization.

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Situates oversight through policies and procedures



The importance of policies and procedures in responding to risks, along with responsibility and accountability for their effective execution, timely control processes, corrective action, and competent personnel, all contribute to the establishment of an effective control and oversight system within an organization.

POINT OF FOCUS- 4. Information & Communication

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Selecting and Developing Control Activities to Mitigate Risks



Oversight activities and risk assessment require a tailored approach that considers the unique characteristics of the business, including relevant processes, a mix of control activity types, the level at which activities are applied, and the segregation of duties, to effectively mitigate risks and support sustainable business objectives

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The organization internally communicates information



- Importance of Communicating Internal Control
- Information Communicates with the board of directors
- Provides separate communication lines
- Selects relevant methods of communication

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Communicates externally



- Communicate with External Parties about Oversight Systems Enable Inbound Communications
- Communicates with the board of directors
- Provides separate communication lines
- Selects relevant methods of communication

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Conducts continuous monitoring



- Uses a combination of continuous monitoring and periodic reviews
- Considers rate of change
- Builds a framework of understanding
- Employs experienced staff
- Connects to business processes alters the scope and frequency
- Objectively evaluates

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Identifies and reports weaknesses

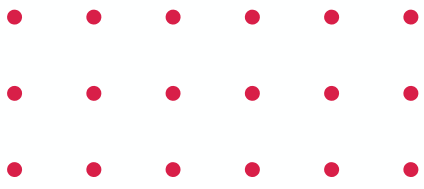


- Evaluates results
- Communicates shortcomings
- Oversees corrective actions

COSO ICSR Insights

- Culture, Ethics, and principles are the foundation for effective controls.
- Trust, accountability, and transparency are crucial for sustainable business information.
- Following COSO principles promotes trust, transparency, and reliability.
- Audit committee focuses on financial reporting but it may also have to focus on sustainability.
- Building cross-disciplinary approach involving various functions will be effective for sustainability growth.
- Organizations may create new functional roles such as “sustainability CFO” or “ESG controller”. Understaffing sustainable business teams creates risk.

- Cross functional collaboration is necessary. Consider adaptability, innovation and long term thinking when hiring.
- Challenges in finding individuals with combined understanding of sustainable business and financial reporting.
- Educating employees on the importance of sustainable business data is crucial.
- Accountability is important in enforcing internal control responsibilities.
- Budgeting resources for effective structures and oversight activities.
- Excessive pressure on achieving targets can divert resources and increase risks.



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Strategic Guide



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Insights help you sharpen your Governance, Risk, and Compliance Knowledge Issued by: Knowledge Management team of JHS

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This Publication is solely for education and awareness purposes.

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