

## COSO and its Application to §404 Compliance

Section 404 does not mandate a specific framework be used to assess internal controls over financial reporting. However, the final rule issued by the SEC requires management to base its assessment on a 'suitable, recognized control framework that is established by a body or group that has followed due-process procedures, including broad distribution of the framework for public comment.' The most widely accepted internal control framework is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework.



The SEC has indicated that the use of the COSO Framework satisfies their criteria and may be used as an evaluation framework. The COSO Framework defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Section 404 is focused on internal control over the reliability of financial reporting.