



COSO’S New Definition

There are eight components in COSO’s new definition of the Enterprise Risk Management process. Five of them should be familiar to Internal Control practitioners.

Internal Environment	Reflects an entity’s philosophy on risk management, considering performance and value (<i>i.e., cost of control vs. cost of risk</i>) to arrive at an acceptable level of risk.
Objective Setting	Based on an entity’s mission, management sets strategic objectives, which if achieved will create and preserve value for the organization.
Event Identification	Management identifies potential events affecting its ability to achieve objectives Events with potentially <u>negative</u> consequences represent RISK. Events with potentially <u>positive</u> consequences represent OPPORTUNITY.
Risk Assessment	Management assesses likelihood and impact of negative events (<i>qualitatively and quantitatively</i>).
Risk Response	Management identifies response options, taking into consideration cost versus benefit and acceptable level of risk. Responses may include avoidance, reduction, sharing of risk (e.g., pooling of risk or co-insurance), and acceptance of risk. <i>The chosen response(s) may have significant impact on the entity’s business plan, services provided, product line or corporate policy.</i>
Control Activities	Policies and procedures help ensure appropriate risk response, including activities such as approval, authorization, verification, reconciliation, review of operating performance, security of assets, and segregation of duties.
Information & Communication	Pertinent information from internal and external sources must be identified, captured and communicated in a timely and relevant fashion. <i>This includes exchange of relevant information among external parties, customers, vendors, regulators, stakeholders.</i>
Monitoring	Monitoring assesses both the present and functioning of risk management components, as well as quality of performance over time.

COSO’s draft ERM Framework is available at www.coso.org.