



Message from the Chair



Internal Controls

BY CARL SMITH, CMA, CFM, CPA

As I mentioned a couple of months ago, IMA is a member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) along with the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the American Accounting Association (AAA), and Financial Executives International (FEI).

Last October, COSO issued an exposure draft titled *Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting*. These guidelines were developed by a COSO small business advisory group in which four IMA members—Kris Brands, James Smith, Rudy McCue, and Malcolm Schwartz—participate. The exposure draft explains how smaller companies can conform to the COSO framework, *Internal Control—Integrated Framework*, which is widely accepted by major users and regulators of financial statements, such as the Securities & Exchange Commission (SEC). While the document speaks to what is needed to satisfy the COSO guidelines regarding internal con-

trols, it doesn't give specific recommendations on *how* an organization can fulfill the requirements. COSO decided to leave that up to the practitioners.

As most of you know, IMA has long recognized the need for businesses of all sizes to have sound systems of internal control that incorporate good financial reporting principles. In light of the COSO guidelines and compliance with Section 404 of the Sarbanes-Oxley Act (SOX), it has become even more important for companies of all sizes—publicly traded or not—to have stronger systems of internal control. IMA feels that there is a great need for guidance, particularly for smaller businesses, from a professional source that is more

management centric than audit centric. Management centric simply means providing inside management with assessment and assurance guidance to implement *cost-effective* controls for the critical “design-build-manage” phases of a business process.

With this need in mind, over the next several months IMA plans to develop and expose for public comment a new management-centric assessment and assurance process that builds from the original 1992 COSO framework. Called “CARD-ME” (Collaborative Assurance and Risk Design—Management Edition), this process is essentially an enterprise risk approach that is portable to global organizations of any size. IMA has also launched a new Web source for SOX/ERM education and information called SOX ERM Online. Information about IMA's initiatives involving SOX compliance and ERM are available on the IMA website at www.imanet.org in the Enterprise Risk Practice in the Centre of Excellence.

If you have any questions or comments, please contact me at csmith@imanet.org. ■