

August 13, 2008

Professor Larry E. Rittenberg, PhD, CPA, CIA  
Chairman  
The Committee of Sponsoring Organizations of the Treadway Commission

Proposed Guidance on Monitoring Internal Control Systems

Dear Dr. Rittenberg:

The Internal Control Institute is pleased to comment on The Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") Guidance on Monitoring Internal Control Systems ("Exposure draft"). The **Internal Control Institute**<sup>™</sup> (ICI) is dedicated exclusively to the issues of corporate governance and internal control and we welcome the opportunity to share our views.

We commend the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Board Members, Principal Contributors, Review Team and the COSO Task Force for their time and energy in putting together this guidance. We are certain that Volume I — Executive Summary, Volume II — Guidance, and Volume III — Application Techniques will serve many organizations well as they seek to improve the effectiveness of their Internal Controls Systems.

We strongly support the overall objective of this project and we believe the three volumes provide numerous helpful insights and valuable additional guidance with respect to the monitoring component of COSO's Internal Control Integrated Framework. This Guidance on Monitoring Internal Control Systems is intended to help organization design, implement, and evaluate monitoring procedures. In 1992, COSO developed the Internal Control — Integrated Framework consisting of five interrelated and equally important components. The Five Components related to the design and operation of the system of internal control: control environment, risk assessment, control activities, and information and communication and monitoring. As this guidance appropriately points out the effectiveness on any internal control system is dependent on the "total system" and not just one component. The Exposure draft focuses exclusively on the monitoring component. We believe organizations would benefit from additional guidance in the other areas as well. We would encourage COSO to provide additional guidance on the other four components with the same emphasis on helping organizations design, implement, and evaluate internal controls in the areas of control environment, risk assessment, control activities, and information and communication as well.

We fully support the publication of the guidance and offer the following suggestions for consideration and further improvements to the exposure drafts.

#### Terminology Consistency

As a general comment, there is a need to use consistent terminology as it relates to other professional guidance. The SEC, PCAOB, IIA and others. For example the guidance provides many new terms that are not generally well understood. We believe the extensive use of new terms will make the guidance more difficult to understand and implement. These new terms are introduced in the documents either by **bolding** or *italics*. In some cases, it appears the use of bolding and italics is used for emphasis and not new terminology. This provides some confusion as well. Volume I Page 3 starts out with *Meaningful Risk* (the term is defined at the bottom of the page) this concept was carried forward for a few pages but not consistently applied throughout the remainder of the documents. We suggest the guidance use definitions of existing terms as much as possible. The understanding of the documents would be significantly enhanced if the use of new terminology is limited to areas where it is absolutely

necessary. Any new terms should be defined immediately following their introduction to improve the readers understanding.

### Executive Summary

We interpret the Executive Summary to be more technically written for control specialists and not written for Executive Management. It appears as a collection of numbered paragraphs (adding to the prescriptive nature of the document perceived by some). We believe the document would be more effective if it were written as a Management Brief. We suggest dropping the numbers and using a logical flow with paragraph headings and more use of graphics.

Why is there an overview in the Executive Summary of Volume III but no overview of Volume II? We suggest the addition of an Overview of Volume II.

The last sentence of the executive summary reads "10. Computerized applications have undergone substantial development and can be built into, or added onto, existing computer applications, providing a high degree of continuous monitoring." Computerized applications... can be built into... existing computer applications..." ? There appears to be a word missing? Should it say "computerized monitoring applications...?"

### Development of Best Practices

One of the objectives of the monitoring project was to show how an effective system of internal control, which includes a strong monitoring function, can be used to support a company's annual assessment of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. We believe the Exposure Draft does an excellent job of documenting current practices developed during the implementation of Sarbanes Oxley. (i.e. Key controls, Control Tables.etc.). We also believe there is an additional need for innovative guidance on demonstrating the implementation and effectiveness for internal controls themselves (i.e. the development of best practices, qualitative and quantitative assessments -such as the process developed by ICI, etc.) Perhaps these concepts are more of a suggestion for future projects than issues that can be addressed in the current exposure draft.

We hope you find our comments helpful and contribute to improving the final document and possibly identifying some future projects .We would like to thank you for the opportunity to provide our comments. Should you have any questions, please don't hesitate to contact us. We would be delighted to discuss our comments and suggestions.

Respectfully,



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