

August 15, 2008

Dr. Larry E. Rittenberg  
Chairman  
The Committee of Sponsoring Organizations  
of the Treadway Commission

**Re: Internal Control — Integrated Framework: *Guidance on Monitoring Internal Control Systems***

Dear Dr. Rittenberg:

We appreciate the opportunity to comment on the Exposure Draft related to *Guidance on Monitoring Internal Control Systems* (the "Exposure Draft"). We support the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Exposure Draft and believe that an improved understanding of the monitoring component of the COSO's *Internal Control — Integrated Framework* (the "1992 Framework") will enhance the effectiveness and efficiency of internal control systems.

In our view, the purpose of the guidance as described in the Executive Summary and in paragraph 4 of Volume II is important in establishing that this guidance serves as a reinforcement of the monitoring principles and concepts contained within the existing 1992 Framework and does not represent additions or changes to those principles and concepts.

We believe that the modifications and enhancements made to the proposed guidance since the September 2007 Discussion Document represent significant improvements to its usefulness. However, the Exposure Draft may include definitive statements that may impair the document's usefulness. For example, paragraph 7 of Volume II states that "Monitoring leads to the identification of control deficiencies *before* they materially affect the achievement of the organization's objectives," leaving the impression of the existence of an absolute cause/effect relationship, even though monitoring does not, by itself, provide absolute assurance. To avoid the risk that too much reliance may be placed on monitoring alone, we believe that this concept would be better presented as a description of what monitoring is intended to accomplish. For example, with regard to the reliability of financial reporting, we believe that the effect of monitoring is more accurately described as a process that, along with the other COSO components, provides reasonable assurance that internal controls continue to operate effectively and, therefore, provides reasonable assurance that control objectives are achieved.



We recommend that COSO ensure that the final guidance avoids making such definitive statements that imply absolute certainty, especially when discussing the reliability of financial reporting.

In addition, we believe that the length and level of detail devoted to describing the persuasiveness of information, including the discussion of relevance, reliability, and timeliness as described in paragraphs 59 through 79 of Volume II, may potentially lead a user to believe that a mechanical analysis is required. We do not believe that the guidance should encourage that inordinate time be spent determining the characteristics that make information persuasive, but should instead provide broad principles to consider when evaluating the effectiveness of monitoring. We believe, therefore, that the extent and depth of coverage as currently included in the Exposure Draft is unnecessary.

Our Appendix provides certain other suggestions that we believe will further enhance the effectiveness of the guidance.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions. Please contact Miles Everson (646-471-8620), John Zembron (203-539-5628) or Jorge Milo (973-236-4300) regarding our submission.

Sincerely,

A handwritten signature in cursive script that reads "Price Waterhouse Coopers LLP".

**Exposure Draft**  
**Internal Control — Integrated Framework:**  
*Guidance on Monitoring Internal Control Systems*

The following recommendations were initially expressed in our October 31, 2007 response letter related to COSO's Discussion Document. We are reiterating certain comments that we believe have continuing applicability to the Exposure Draft.

**General**

The Exposure Draft introduces terms that are either introduced or referred to in new context. For example, we believe the defined term "compensating controls" has been modified from that used in the 2006 *Guidance for Smaller Public Companies* and believe that the definition in the Exposure Draft does not provide the user with sufficient explanation as to when compensating controls should be considered. We believe that in order to prevent confusion, and given the intent to not modify the provisions of earlier COSO releases, the original definition in the 2006 *Guidance for Smaller Public Companies* should be used.

In addition, we believe that the Glossary should only include definitions of terms as they are to be used in the context of the guidance. Reference in the definition of "reasonable assurance" to the definitions used by the Securities and Exchange Commission and the American Institute of Certified Public Accountants are confusing and should be deleted.

**Designing and Executing Monitoring Procedures**

Paragraph 85 includes the attributes of ongoing and separate evaluations as provided in Principle 19 of COSO's 2006 *Guidance for Smaller Public Companies*. The exact language, however, has been modified. For example, the Exposure Draft incorporates into the first attribute reference to "automated monitoring routines". Users may incorrectly interpret this attribute to require the implementation and use of certain IT programs as monitoring controls. We believe that in order to prevent confusion, and given the intent to not modify the provisions of earlier COSO releases, the original language should be used.

**Scalability of Monitoring**

Figures 9 and 10, on pages 50 and 51, respectively, should not suggest that risks within an organization only exist at the lowest level of the organization. The figures should clearly illustrate that risks can exist at all levels of the organization. It should also incorporate the role of the Board of Directors and the Audit Committee in order to reinforce concepts introduced earlier in the guidance. Alternatively, these clarifications could be included in footnote 28 on page 50.