

August 15, 2008

I am pleased to send our comments on COSO Monitoring Guidance on behalf of the subcommittee members for studying control monitoring in the governance committee of the IIA Japan.

The comments are based on the discussion among the members of the monitoring subcommittee, but they are not any opinions of the IIA Japan.

In addition to the public comments, Mr. Yasuhiro Mori, the chair of the sub group prepared some questions/comments as follows:

1. This Exposure Draft is much easier to understand than the previous Discussion Document.
2. In the previous Discussion Document, the "Control Activity" and the "Control Monitoring" were discriminated as different activities. However, there is no such discrimination in this Exposure Draft. In our discussion, we understand the reason is that the discrimination is meaningless and/or it is difficult to divide into two activities in real world. Is the understanding correct?
3. "Self-Review" was stated "does not constitute monitoring" in the Discussion Document, however, it is "is limited" and "can serve a valuable role" in this Exposure Draft. Does this mean "Self-Review" is a monitoring?
4. In Glossary 7, it is said that "Self-Assessment" also includes "Peer Review" and "Supervisory Review". Does this mean that "Self-Assessment" can be an objective monitoring? If so, do we say some self-assessments can be a useful monitoring method to reduce SOX 404 testing works?

Thanks and regards,

Seiichi Kobe
CIA Forum No. 4-F Monitoring subcommittee
Governance committee of the IIA Japan

COSO Guidance on Monitoring Internal Control Systems Public Comment Form – Spring 2008

Thank you in advance for providing feedback on COSO's exposure draft, *Guidance on Monitoring Internal Control Systems*. Your candid responses will allow us to gauge its effectiveness and improve the final document, benefiting organizations of all sizes and their stakeholders.

This comment form follows the order of the Guidance. You may also complete it online (which is our preferred method of collecting feedback) through a link posted at <http://www.coso.org/guidance.htm>. Each section contains brief questions regarding the Guidance and also offers respondents an opportunity to provide general feedback unrelated to the questions. If you prefer, you may provide feedback without answering the questions. The demographic information requested in the last section will help us group and analyze the responses.

You may submit this form or other written feedback via email to COSOMonitoring@gt.com or fax it to COSO Monitoring at 704.337.2979.

We would like to receive all comments by August 15, 2008. Note that they will be posted to the COSO Web site as submitted, with no redaction of identifying information.

If you have any questions about accessing or responding to the discussion document, please contact Jay Brietz at 704.632.6916.

We know your time is valuable, and we thank you again for your thoughtful completion of this comment form. Your feedback is integral to the success of the final document.

Larry E. Rittenberg, PhD, CPA, CIA
Chairman, COSO

Questions/Commentary _____

Volume II – The Guidance

Chapter I. Monitoring as a Component of Internal Control Systems

- 1. Does the Guidance adequately describe the role of internal control monitoring (paragraphs 6–10)?

Yes

Comments:

Contrasting effective monitoring with ineffective one, the role of monitoring became more clear.

- 2. Additional comments regarding Chapter I.

Comments:

Chapter II. Establishing a Foundation for Monitoring

- 3. Is the model for monitoring presented in paragraph 19 a complete and accurate outline of the monitoring process?

Yes

Comments:

- 4. Do you agree with the description of the roles of management and the board with respect to monitoring (see paragraphs 23–24)?

Somewhat

Comments:

I agree paragraph 23, but I am not sure about 24.

- 5. Do you agree with the description of the characteristics of evaluators (see paragraphs 25-33)?

Somewhat

Comments:

For the self-assessment describing at Glossary 7, the supervisory review might be a control activity.

- 6. Is the discussion about establishing a baseline understanding of internal control effectiveness clear, correct, complete, and useful (see paragraphs 34–36)?

Yes

Comments:

- 7. Additional comments regarding Chapter II.

Comments:

Chapter III. Designing and Executing Monitoring Procedures

8. Figure 7 on page 18 and paragraphs 42–49 are designed to provide an overview of the core of monitoring — designing and executing monitoring procedures. Do the graphic and related summary paragraphs properly summarize the process of monitoring?

Yes

Comments:

9. The Guidance indicates that effective and efficient monitoring evaluates controls that address “meaningful risks” to an organization’s objectives. Paragraphs 50–54 provide guidance regarding assessing risks and how prioritizing risk influences monitoring. The intent is to provide guidance (1) without being prescriptive as to how risk assessment should be done, and (2) without delving so deeply into the risk assessment component that the focus of the Guidance shifts away from monitoring. Do you believe the Guidance properly addresses the role of risk assessment in the context of internal control monitoring?

Somewhat

Comments:

I think more factors should be included for the risk factors to consider.

10. The Guidance defines the term “key controls” (see paragraphs 46–47 and 55–57). The project team chose to define the term because (1) it is widely used in practice, but is not consistently defined; and (2) the Guidance proposes that, in order to conclude that the internal control system effectively addresses a given risk, organizations may not need to evaluate every control that addresses that risk — thus, the term distinguishes between controls that will be subjected to monitoring procedures and those that will not. Do you believe the concept of “key controls” is properly addressed in the Guidance?

Yes

Comments:

11. Information that is evaluated to assess controls effectiveness provides varying levels of support. The Guidance defines “persuasive information” as that which is capable of providing adequate support for a conclusion about the effectiveness of internal control. Persuasive information is further defined as that which is “suitable and sufficient in the circumstances” (see paragraphs 59–60). Do you agree with the general premise of persuasive information as outlined in the Guidance?

Yes

Comments:

12. The Guidance discusses the difference between direct and indirect information as being one of the primary factors influencing the persuasiveness of information. Feedback from the September public discussion document indicated broad support for this aspect of the Guidance, but also indicated a need to refine and clarify the material. Is the current discussion of direct and indirect information (in paragraphs 64–72 and in the Applying the Concepts section beginning on page 34) clear, correct, complete, and useful?

Somewhat

Comments:

I would like to have more explanations with example about indirect information, because I believe some indirect information is useful as an indicator of control deficiency.

13. The Guidance states that reliable information is accurate, verifiable, and from an objective source (paragraphs 73–75). Is the concept of reliability, as described in the document, clear, correct, complete, and useful?

Yes

Comments:

14. Is the concept of timeliness of information (paragraphs 76–77), as described in this document, clear, correct, complete, and useful?

Yes

Comments:

15. The “Sufficient Information” section (paragraphs 78–79) has been expanded based on feedback from the September public discussion document. Is this expanded material clear, correct, complete, and useful?

Yes

Comments:

16. Based on feedback from the September discussion document, the section regarding “Ongoing Monitoring and Separate Evaluations” has been simplified. It now more clearly articulates that the primary difference between the two is not how they are performed, but how often and by whom. The Guidance then addresses the factors an organization might consider in deciding between the two processes. Do you believe this section is clear, correct, complete, and useful?

Yes

Comments:

17. A paragraph has been added to the document to address the monitoring of controls outsourced to others (paragraph 90). Is this paragraph clear, correct, complete, and useful?

Yes

Comments:

18. The “Using Technology for Monitoring” section has been simplified from the September 2007 draft, and a discussion regarding “continuous controls monitoring” has been added (see paragraphs 91–94). Is this section clear, correct, complete, and useful? (Note: Some commenters to the September 2007 discussion document indicated a desire for direction in applying the monitoring guidance to controls over information technology (IT). A comprehensive discussion regarding monitoring IT controls has been included in Volume III.)

Somewhat

Comments:

More simple examples of monitoring using IT will be useful. In addition, for the section "Using Technology for Effective Monitoring" on Volume III, more examples about embedded program to check wrong doings such as expense payments.

19. Additional comments regarding Chapter III.

Comments:

Chapter IV. Assessing and Reporting Results

20. Is the section “Prioritizing and Communicating Results” clear, correct, complete, and useful?

Somewhat

Comments:

If the prioritization of results is failed, monitoring will be ineffective. More discussion will be necessary about who should make prioritization and the communication channel.

21. Is the section “Reporting Internally” clear, correct, complete, and useful?

Yes

Comments:

22. Is the section “Reporting Externally” clear, correct, complete, and useful?

Yes

Comments:

23. Additional comments regarding Chapter IV.

Comments:

Chapter V. Scalability of Monitoring

24. Chapter V, “Scalability of Monitoring,” is designed to show how monitoring might differ between organizations based on their size and complexity. It is designed to complement and summarize other references to size and complexity that are spread throughout the document. Is this chapter clear, correct, complete, and useful?

Yes

Comments:

Section VI. Assessing the Effectiveness and Efficiency of Monitoring

25. Is Chapter VI, “Assessing the Effectiveness and Efficiency of Monitoring,” clear, correct, complete, and useful?

Yes

Comments:

Other General Areas/Topics

26. Does the Executive Summary (Volume I) effectively summarize the guidance contained in Volume II?

Yes

Comments:

27. Apart from your comments above, should anything be added or changed to improve the Guidance, making it more practical to implement? If so, please summarize your recommended additions or changes below.

Yes

Comments:

If possible, it is valuable to state that the monitoring reduces SOX 404 testing.

28. Overall, do you believe the document advances the understanding of what effective monitoring should look like in any given organization?

Yes

Comments:

Volume III – Application Techniques

Chapters II–IV. Brief Examples Linked to Volume II Chapters

29. Chapters II–IV of Volume III contain brief examples of how various organizations currently monitor internal control in ways that are consistent with the concepts embodied in Volume II — the Guidance and are organized to correspond with the Guidance. As the introduction to Volume III indicates, the examples are not intended to mandate how monitoring should be performed, but to articulate how the Guidance might be applied. Do the examples achieve that objective? (Note: Please elaborate if you believe certain of the examples should be edited or deleted or if you recommend inclusion of other examples.)

Somewhat

Comments:

If there are some illustrations in the section II. Establishing a Foundation for Monitoring about how to do to achieve, it will be more useful.
Section IV. Assessing and Reporting Result looks too general.

30. The appendices to Volume III relate to the examples discussed in question #29 and show some of the tools the various organizations use for monitoring. Are the appendices helpful without appearing to be prescriptive?

Somewhat

Comments:

They are useful, but not new for us.

Chapter V. Comprehensive Examples

31. Chapter V of Volume III contains comprehensive examples of how two organizations monitor internal control over a given risk area. These examples attempt to demonstrate application of the monitoring process from start to finish, as outlined in the Guidance. Like the earlier examples, those in Chapter V are intended to be descriptive rather than prescriptive. Do these two examples help demonstrate application of the Guidance?

Yes

Comments:

They are very helpful and applicable.

32. Chapter V of Volume III also contains a discussion of monitoring information technology (IT) controls that address financial reporting-related risks. This discussion was included because (1) many people have requested specific guidance regarding monitoring IT controls related to financial reporting, (2) IT-related risks are pervasive across most organizations, and (3) the ways in which those risks are controlled are fairly consistent across organizations, making the discussion applicable in a broad sense. Without being prescriptive, does the discussion about monitoring IT controls articulate how such monitoring might be performed?

Somewhat

Comments:

If there are more illustrations, it will be easier to perform.

33. Additional comments regarding Volume III.

Comments:

Demographic Information

34. Your name

Seiichi Kobe

35. Your email address

skobe@controlsolutions.co.jp

36. Your position (select the position from which you answered the questions above)

Consultant

37. Country

Japan

38. Name of organization (should correspond to position selected in Question 36 above)

Control Solutions International Co. Ltd.

39. Classification of the above-named organization (select one)

Professional association

40. Annual revenues of the above-named organization

N/A

41. Public float (market cap) of the above-named organization, if a public company

N/A