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COSO Chairman

Larry E. Rittenberg, Ph.D., CIA, CPA
975 University Avenue
Madison, WI 53706-1323
Tel +1-608 262-2267
lrittenberg@bus.wisc.edu

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Ms. Nancy M. Morris
Secretary, Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Release Nos. 33-8762; 34-54976: "Proposed Interpretative guidance for management regarding its evaluation of internal control over financial reporting and related rule amendments. Management's Report on Internal Control over Financial Reporting"

Dear Ms. Morris:

On behalf of the COSO Board, I am submitting our comments on the proposed interpretive guidance. COSO is supportive of the SEC in its objective to issue interpretive guidance. We find the call for a top-down risk-based approach to be consistent with the COSO internal control framework. COSO is committed to the proposition that all companies ought to have effective internal controls. Indeed, the response to our guidance for smaller public companies has been quite positive as companies have found the principles in the guidance to be scalable across different sizes and industries.

COSO is currently working on a project to better define the monitoring component of the COSO *Internal Control - Integrated Framework* (ICIF). It is our sense that many companies have not fully integrated the monitoring component into their overall control structure, and they have not effectively utilized the monitoring component to better manage the costs of meeting the Sarbanes-Oxley Section 404 requirements. Our original publication of the internal control framework (1992) states that:

“Monitoring ensures that internal control continues to operate effectively. This process involves assessment by appropriate personnel of the design and operation of controls on a suitably timely basis, and the taking of necessary actions.” (Chapter 6, p. 1)

The monitoring concept is more fully articulated in the *COSO Internal Control over Financial Reporting – Guidance for Smaller Public Companies*. Internal control is a process that is ongoing, as is illustrated on page 11 of Volume II of the smaller business guidance. Monitoring is an integral part of that process, and can be performed in a number of different manners ranging from computerized continuous monitoring to separate corroborating reviews by internal audit.

The current project on monitoring is being conducted in two phases: the first phase will lead to the publication of a preliminary “white paper” [pre-exposure draft] articulating the concepts of the monitoring component of the COSO ICIF. The second phase – which includes an exposure draft - will seek public comment on the white paper concepts along with an identification of approaches that companies are using to implement both on-going and separate evaluations of their internal control structure. COSO believes that this guidance will provide more insight into situations in which management will be able to utilize effective monitoring, along with other assessment methods, where applicable, to support their assertion on the effectiveness of internal control over financial reporting.

We are planning on the release of the white paper by late March. We will share that document with you as soon as it is ready. We plan on issuing an exposure draft for public comment during the summer and completing the project by January 2008. We have a very broad task force working on the project including representatives from the user community, preparer community, government officials, auditors, and consultants. We are very optimistic about the potential contribution of this project to better develop cost-effective approaches to internal control monitoring.

We encourage the SEC to consider our forthcoming white paper on monitoring, the exposure draft and final guidance on monitoring, as the agency refines its interpretive guidance. COSO views monitoring as a core part of an effective system of internal control over financial reporting, and as particularly useful in the assessment process. We encourage interpretive guidance that encourages registrants to build an effective monitoring approach that will both assist the organization in accomplishing its Section 404 assessment, and, perhaps more importantly, ensure reliable financial information for decision-making. Effective monitoring can be an integral part of management’s assessment of internal control over financial reporting. Thus monitoring and assessment of internal control should not be viewed as something that is necessarily in addition to, or layered on top of, the entity’s system of internal control over financial reporting. Rather, effective monitoring is integral to internal control and should be considered an important part of management’s process, along with the other components of COSO’s ICIF, in supporting their assertion about the effectiveness of internal control over financial reporting.

The COSO Board would be pleased to discuss the monitoring project as well as the *COSO Internal Control, Integrated Framework* with you at your convenience.

Sincerely,

Larry E. Rittenberg, PhD, CPA, CIA

COSO BOARD MEMBERS

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