

October 31, 2007

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

By e-mail: COSOMonitoring@gt.com

**Re: COSO Guidance on Monitoring Internal Control Systems  
Public Comment Form – Fall 2007**

Dear Mr. Rittenberg:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned guidance. NYSSCPA thanks the COSO for the opportunity to comment.

The NYSSCPA's SEC Practice Committee deliberated the guidance and drafted the attached response and comments on the prescribed form. If you would like additional discussion with us, please contact Rita M. Piazza, the Chair of the SEC Practice Committee, at (914) 684-2700, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



David A. Lifson  
President

Attachment



*Home of the Trusted Professional*  
3 park avenue, at 34th street, new york, ny 10016-5991  
212.719.8300 • fax 212.719.3364  
www.nyscpa.org

**COMMENTS ON COSO GUIDANCE ON MONITORING  
INTERNAL CONTROL SYSTEMS**

**Public Comment Form – Fall 2007**

**October 31, 2007**

**Principal Drafter**

**Anthony S. Chan**

### **NYSSCPA 2007 – 2008 Board of Directors**

David A. Lifson, <i>President</i>	Edward L. Arcara	Elliot A. Lesser
Sharon Sabba Fierstein, <i>President-elect</i>	Scott M. Adair	Beatrix G. McKane
Mark Ellis, <i>Secretary</i>	Susan M. Barossi	Mark L. Meinberg
Richard E. Piluso, <i>Treasurer</i>	Thomas Boyd	Ian M. Nelson
Rosemarie A. Giovinazzo- Barnickel, <i>Vice President</i>	Debbie A. Cutler	Jason M. Palmer
John J. Lauchert, <i>Vice President</i>	Joseph M. Falbo, Jr.	Robert A. Pryba Jr.
Edward J. Torres, <i>Vice President</i>	Myrna L. Fischman, PhD	Robert T. Quarte
Louis Grumet, <i>ex officio</i>	Daniel M. Fordham	Ita M. Rahilly
	David R. Herman	Thomas E. Riley
	Scott Hotalen	Judith I. Seidman
	Robert L. Goecks	Anthony J. Tanzi
	Martha A. Jaeckle	Thomas M. VanHatten
	Suzanne M. Jensen	Liren Wei
	Lauren L. Kincaid	Ellen L. Williams
	Gail M. Kinsella	Margaret A. Wood
	Kevin Leifer	Richard Zerah

### **NYSSCPA 2007 - 2008 Accounting & Auditing Oversight Committee**

George I. Victor, Chair	Elliot L. Hendler	Yigal Rechtman
Michael J. Aroyo	Edward P. Ichart	William M. Stocker III
Robert W. Berliner	Thomas O. Linder	Ira M. Talbi
Thomas J. Goodfellow	Mitchell J. Mertz	Paul J. Wendell
	Rita M. Piazza	

### **NYSSCPA 2007 - 2008 SEC Practice Committee**

Rita M. Piazza, Chair	John P. Fodera	Fitzgerald Raphael
Michele B. Amato	Leon J. Gutmann	John P. Rushford
Giautam Anumukonda	Edward J. Halas	Paul Rykowski
Patricia A. Baldowski	Elliot L. Hendler	Stephen A. Scarpati
Curtis J. Banos	David J. Lamb	Andrew Schneider
John A. Basile	Moshe S. Levitin	Grace G. Singer
Douglas J. Beck	Helen R. Liao	Robert E. Sohr
David Bender	Thomas P. Martin	Fredric S. Starker
Michael C. Bernstein	Nicole J. Martucci	Joseph Troche
Jeffrey M. Brinn	Corey L. Massella	George I. Victor
Thomas E. Caner	Jacob Mathews	Philip H. Weiner
Anthony S. Chan	Mitchell J. Mertz	Paul J. Wendell
Burgman E. Connolly	Peter J. Pirando	David C. Wright
Bridget M. Day	Arthur J. Radin	

### **NYSSCPA Staff**

Ernest J. Markezin

COSO Guidance on Monitoring Internal Control Systems  
Public Comment Form – Fall 2007

---

Questions/Commentary

Section I. Monitoring as a Component of Internal Control Systems

1. This document says that effective monitoring should be designed to identify and correct weaknesses in internal control *before* those weaknesses can materially impact the organization's objectives. Do you believe the document adequately and properly addresses the concept that, although effective monitoring cannot be expected to identify and correct all internal control weaknesses before they occur, it should be expected to identify and correct them before they lead to material problems?

Somewhat

*Comments:*

Conceptually speaking, effective monitoring should result in the timely identification and correction of those control weaknesses (as opposed to all weaknesses) that could lead to material problems (such as a material financial misstatement). On a practical basis, management should be encouraged to design a cost-effective monitoring program whose objective is to risk-rank, prioritize and correct those control issues that present the highest risk to the organization.

2. Is the difference between monitoring activities and control activities clear, correct, complete, and useful?

Somewhat

*Comments:*

While it is important to distinguish the difference between monitoring and control activities, we are unsure of its usefulness to management of small businesses who often rely on detailed account review and variance analysis to identify errors that could result in the risk of a material financial misstatement.

3. Additional comments regarding Section I.

*Comments:*

For monitoring to be cost-effective and practical, it should be designed to identify, prioritize and address those control matters that present the highest risk to the organization. The project team should be sensitive to the resource constraints of small businesses and supplement its conceptual discussion with helpful hints and best practices.

## Section II. Fundamentals of Monitoring

4. This document suggests that effective and efficient monitoring is achieved through (1) establishing an effective control environment for monitoring, (2) prioritizing monitoring procedures based on control importance, and (3) proper communication and follow-up. Do you agree with that concept?

Yes

*Comments:*

None.

5. The four-point monitoring structure on pages 8 and 9 and in Figure 4 is intended to show how an organization might be able to monitor both efficiently and effectively by focusing on areas of change from a baseline of known effective controls. Is this concept clear, correct, complete, and useful?

Somewhat

*Comments:*

While the four-step approach is helpful in providing structure to effective monitoring, its discussion of control baselining and change-management is too conceptual and academic in nature. As a practical matter, monitoring should be viewed as a continuous process to help identify, track and remediate significant deviations from current practices that pose the highest financial reporting risks to the organization.

6. This document suggests that the primary roles of the board/audit committee related to monitoring internal control are to (1) verify that senior management has implemented an effective monitoring program, and (2) monitor those controls that members of senior management perform and cannot objectively monitor themselves. Is this description of the role of the board/audit committee in monitoring clear, correct, complete, and useful?

Yes

*Comments:*

We agree with the description and its value in mitigating the risks of management override.

7. Additional comments regarding Section II.

Comments:

None.

Section III. Nature of Information Used in Monitoring

8. The discussion document uses the term “persuasive information” rather than “evidence” or “persuasive evidence” to describe that which provides evaluators the support they need to form conclusions about control effectiveness. The project team chose the word “information” because the word “evidence” is often perceived to be auditor-centric language. Does the term “persuasive information” adequately convey the intended concept? If not, please suggest another term.

Yes

Comments:

None.

9. This document suggests that reasonable conclusions about the effectiveness of internal control should be supported by “persuasive information.” It defines persuasive information as that which is *suitable* (referring to the quality of information) and *sufficient* (referring to the quantity of information). Specific questions about suitability and sufficiency follow in questions 10-14 below, but, at a high level, do you agree with this concept?

Yes

Comments:

We agree with the concept but are unsure of the benefit of replacing the quality and quantity of persuasive information with suitability and sufficiency.

10. This document states that suitable information is relevant, reliable, and timely. Information that does not adequately demonstrate all three elements may be suitable to a degree, but alone it cannot support reasonable conclusions regarding continued control effectiveness. Do you agree?

Yes

*Comments:*

None.

11. Are the distinctions between direct and indirect information helpful in identifying information that is more versus less relevant?

Somewhat

*Comments:*

The discussion is too academic in nature and, in certain instances, difficult to understand. For example, it is unclear what the relevance of the following discussion is -- that " the value of indirect information in monitoring is (a) porportionate to the strength of the internal control system and (b) inversely proportionate to the length of time since the last control baseline was established."

12. This document states that reliable information is accurate, verifiable, and from an objective source. Is the concept of reliability, as described in this document, clear, correct, complete, and useful?

Yes

*Comments:*

None.

13. Is the concept of timeliness of information, as described in this document, clear, correct, complete, and useful?

Yes

Comments:

None.

14. This document suggests that companies need to gather *enough* suitable information in order for it to be persuasive. Is the sub-section, "Information Sufficiency," presented on pages 16 and 17, helpful in determining how much suitable information must be gathered in various circumstances to support reasonable conclusions about internal control?

Somewhat

Comments:

We suggest a definition for "reasonable possibility" be provided (bottom of page 16).

15. Additional comments regarding Section III.

Comments:

None.

## Section IV. Designing Effective Monitoring

16. Is the sub-section, “Prioritizing and Designing Monitoring Procedures” — including the descriptions of the nature of operations, the purpose of monitoring, and the relative importance of controls — clear, correct, complete, and useful?

Somewhat

*Comments:*

For scoping to be cost-effective and practical, management should be advised to focus on risks that are most critical to the organization and relevant controls that are susceptible to failure (or have failed in the past).

17. Are the sub-sections, “Ongoing Monitoring Using Direct Information,” “Ongoing Monitoring Using Indirect Information,” and “Separate Evaluations Using Direct or Indirect Information,” clear, correct, complete, and useful?

Somewhat

*Comments:*

The discussion is too academic and conceptual in nature. For it to be useful to small businesses, the project team should recognize that not every organization has the resources to conduct separate evaluations and provide examples of best practices others have considered or implemented.

18. This document states that monitoring using indirect information does not demonstrate explicitly to the evaluator that underlying controls are operating effectively. For example, a supervisor’s review of inventory variances does not demonstrate explicitly to him or her that controls over inventory are effective. Do you agree with that concept?

Yes

*Comments:*

Although we do not disagree with the concept, management of small businesses has often relied on its detailed account and variance analysis to help identify potential problem areas that warrant specific attention.

19. Is the discussion of capabilities and position of evaluators clear, correct, complete, and useful?

Yes

*Comments:*

Realistically, not many small businesses can afford separate evaluations. As a practical matter, companies may continue to utilize its "SOX leaders" or Internal Audit to evaluate the effectiveness of its monitoring process.

20. In the sub-section, "Using Technology for Effective Monitoring," the document suggests that technology plays two roles in effective monitoring: control monitoring and process management. The document describes technology tools that can be used to monitor other controls and tools that can assist in the overall management of the monitoring process. Is this section clear, correct, complete, and useful?

Somewhat

*Comments:*

To many smaller businesses, technology is a good-to-have and not a must-have when it comes to SOX compliance.

21. Does the sub-section, "Deciding When and How Often to Monitor," effectively describe how organizations might vary the frequency of their monitoring procedures based on risk?

Yes

*Comments:*

In determining the frequency of its monitoring procedures, management should be advised to consider the nature and root-cause of control issues identified in its most recent assessment.

22. Additional comments regarding Section IV.

*Comments:*

None.

### Section V. Communicating and Addressing the Results of Monitoring

23. The sub-section, “Ranking Issues and Reporting Internally,” describes how organizations might determine what and to whom to communicate the results of monitoring. Does this description provide a better understanding of how to apply Principle 20 from COSO’s 2006 Guidance?

Yes

*Comments:*

None.

24. Is the section on reporting to external parties clear, correct, complete, and useful?

Yes

*Comments:*

None.

25. Additional comments regarding Section V.

*Comments:*

None.

## Section VI. Scalability of Monitoring

26. The scalability section is designed to show how monitoring might differ between organizations based on their size and complexity. Is this section clear, correct, complete, and useful?

Yes

*Comments:*

For cost-effectiveness purposes, management should be advised to keep the level of documentation to a minimum.

## Other General Areas/Topics

27. Does the executive summary bring into focus the concepts of effective and efficient monitoring?

Yes

*Comments:*

None.

28. Apart from your comments above, is there anything that should be added or changed to improve the document, making it more practical to implement?

Yes

*Comments:*

Although this document is not intended to be a "how to" guide, the project team should consider expanding it to include perspectives relevant to small businesses and discussions of related best practices.

29. This guidance was developed with the expectation that it would be applicable to monitoring internal control related to all objectives (i.e., objectives related to operations, financial reporting, compliance with laws and regulations, and organizational strategy). However, it was also developed with the expectation that its most-frequent initial application would be related to internal control over financial reporting, particularly by those companies subject to Section 404 of the U.S. Sarbanes-Oxley Act of 2002. Both the U.S. Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) have published guidance and/or standards related to internal control over financial reporting. Do you believe this document is consistent with the SEC and PCAOB guidance/standards? If not, please identify the conflicts.

Yes

*Comments:*

None.

30. This discussion document is intended to complement, not to change, the underlying concepts in the original 1992 COSO Framework and in COSO's 2006 Guidance. Do you believe this discussion document is consistent with those documents? If not, please comment on any inconsistencies you have noted.

Yes

*Comments:*

None.

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

Somewhat

32. If you have either implemented or seen examples of internal control monitoring that you believe represent best practices, please describe them below.

*Comments:*

Monitoring should be integrated into the organization's overall risk management process to provide reasonable assurance that the risks of material financial misstatements have been reduced to an acceptable level. From a leadership perspective, monitoring of SOX 404 compliance could be lead by the company's Internal Audit or SOX Compliance Manager.

### Demographic Information ---

33. Your name

New York State Society of Certified Public Accountants

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

Other (please describe)

35. Country

United States

36. Name of organization (should correspond to position selected in Question 34 above)

New York State Society of Certified Public Accountants

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

Professional association

Professional association

38. Annual revenues of the above-named organization

N/A

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

N/A