



September 17, 2007

Dear Colleague:

The COSO board believes that the monitoring component of a properly designed and functioning internal control system — utilizing COSO’s Internal Control – Integrated Framework — has often been underutilized by organizations of all sizes. This discussion document, which is the first phase of our broader monitoring project, is intended to improve the understanding of the building blocks of effective monitoring, thereby improving both the efficiency and the effectiveness of the entire system of internal control. The guidance presented is effective for all three internal control objectives, including the financial reporting objective that is relevant to public reporting under the Sarbanes-Oxley Act of 2002 or under similar regulatory initiatives around the world.

Introduced in 1992 as one of the five fundamental components of the Framework, monitoring is designed to “ensure that internal control continues to operate effectively.” COSO’s 2006 internal control guidance for smaller public companies elaborates further on monitoring by emphasizing two fundamental points:

- Monitoring should be designed to determine whether all components of internal control continue to operate effectively; and
- Weaknesses in internal control should be communicated in a timely fashion to those responsible (including management and the board) such that corrective action can be taken.

Monitoring is therefore an integral part of internal control. Further, it is important that internal control is viewed as a continuous process and that effective monitoring is implemented as a component of that process — whether that control process applies to operations, compliance, or financial reporting activities.

The second phase of the monitoring project, scheduled for release after comments are received on this discussion document, will provide examples, case studies, and tools to assist all organizations in implementing effective and efficient monitoring. Our intent is to release an exposure draft of the full implementation guidance later this year and to release the final guidance in the first quarter of 2008.

COSO seeks your feedback on the concepts in this discussion document — we want to know if they are clearly articulated and if you agree with the conclusions reached. We also want to receive examples of innovative approaches you have taken in monitoring the

effectiveness of internal control. We have developed an online comment form for you to complete and will consider your observations in the development of our final guidance.

A link to the form is located at [www.coso.org/Publications.htm](http://www.coso.org/Publications.htm). Please submit your comments by October 31, 2007.

I would like to recognize the major contribution of Grant Thornton LLP and its team in leading this project. In particular, I want to thank Trent Gazzaway for his yeoman's efforts in pushing the project forward and leading discourse on very difficult concepts. Through many hours of exchange and debate, the project team, task force, and COSO board dealt with numerous challenges in developing this discussion document.

I also want to recognize and thank all members of the task force listed inside the front cover. Each of them made a significant contribution to the process that yielded this guidance — challenging us to be crisp in our definitions and providing examples of their companies or clients who have implemented effective monitoring of internal control.

As chair of COSO, I extend my thanks to the five sponsoring organizations for their continued support and contributions to the task force: the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the Institute of Management Accountants (IMA), and The Institute of Internal Auditors (IIA).

We look forward to your comments.

Best regards,

A handwritten signature in black ink that reads "Larry E. Rittenberg". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

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