



CAQ Alert #2009-21 – February 25, 2009

DEAR CENTER MEMBERS

COSO Issues Guidance on Monitoring Internal Control Systems

On February 4, 2009, the Committee of Sponsoring Organizations of the Treadway Commission ([COSO](#)) announced the release of new guidance entitled, [Guidance on Monitoring Internal Control Systems](#) (Guidance). This Guidance more fully develops and clarifies the monitoring component contained in COSO's [Internal Control – Integrated Framework](#), which was issued in 1992.

The intent of the Guidance is to assist organizations to: 1) identify effective monitoring where it already exists and use it to the maximum benefit, and 2) identify less effective or efficient monitoring, leading to improvements.

COSO believes that when monitoring is designed and implemented appropriately, organizations benefit because they are more likely to:

- Identify and correct internal control problems on a timely basis,
- Produce more accurate and reliable information for use in decision-making,
- Prepare accurate and timely financial statements, and
- Be in a position to provide periodic certifications or assertions on the effectiveness of internal control.

This Guidance builds on two fundamental principles originally established in COSO's [Internal Control Over Financial Reporting – Guidance for Smaller Public Companies](#):

- Ongoing and/or separate evaluations enable management to determine whether the other components of internal control continue to function over time, and
- Internal control deficiencies are identified and communicated in a timely manner to those parties responsible for taking corrective action and to management and the board as appropriate.

It further suggests that these principles are best achieved through monitoring that is based on three broad elements:

- **Establishing a foundation for monitoring**, including: (a) a proper tone at the top; (b) an

effective organizational structure that assigns monitoring roles to people with appropriate capabilities, objectivity and authority; and (c) a starting point or “baseline” of known effective internal control from which ongoing monitoring and separate evaluations can be implemented;

- **Designing and executing monitoring procedures** focused on *persuasive information* about the operation of *key controls* that address *meaningful risks* to organizational objectives; and
- **Assessing and reporting results**, including an evaluation of the severity of any identified deficiencies and reporting the monitoring results to the appropriate personnel and the board for timely action and follow-up if needed.

The COSO Guidance comprises three volumes:

Volume I: Guidance - Intended to summarize the core concepts embodied in COSO’s monitoring component and includes the following information:

- I. Purpose of the Guidance
- II. Nature and Purpose of Monitoring
- III. A Model for Monitoring
 - a. Establish a Foundation for Monitoring
 - b. Design and Execute Monitoring Procedures
 - c. Assess and Report Results
 - d. Other Considerations
- IV. Summary Considerations

Volume II: Application – Conveys in greater detail the principles outlined in Volume I and provides guidance to those responsible for implementing effective monitoring by providing the following information:

- I. Monitoring as a Component of Internal Control Systems
 - a. Role of Monitoring
 - b. Structure of Effective Internal Control Systems
 - c. A Model for Monitoring
- II. Establish a Foundation for Monitoring
 - a. Tone at the Top
 - b. Organizational Structure
 - c. Baseline Understanding of Internal Control Effectiveness
- III. Design and Execute Monitoring Procedures
 - a. Prioritize Risks
 - b. Identify Key Controls
 - c. Identify Persuasive Information
 - d. Implement Monitoring Procedures

IV. Assess and Report Results

- a. Prioritize and Communicate Results
- b. Report Internally
- c. Report Externally

V. Other Considerations

- a. Monitoring Controls Outsourced to Others
- b. Using Technology for Monitoring
- c. Formality and Level of Documentation
- d. Scalability of Monitoring

VI. Assessing the Effectiveness and Efficiency of Monitoring

VII. Principles of Effective Internal Control Over Financial Reporting (Appendix A)

VIII. Map Linking the Model for Monitoring to the 1992 COSO Framework (Appendix B)

Volume III: Examples – Illustrates techniques used by many organizations in applying the monitoring principles outlined in Volumes I and II. The structure of this Volume parallels that of Volume II (noted above) to provide an easy reference between the two.

The Guidance is [available for purchase](#) and a [free introduction](#) is available for download at the respective links. Additionally, readers may access a [WebEx](#) presented by COSO, which provides an overview of the new Guidance at the respective link.

Other Internal Control Related Resources:

CAQ Alert #2009-14	CAQ Publishes "Lessons Learned" on <i>Performing an Audit of Internal Control in an Integrated Audit</i> , February 9, 2009
CAQ Alert #2009-09	PCAOB Issues Guidance on Auditing Internal Control Over Financial Reporting in Smaller Public Companies, January 29, 2009
CAQ Alert #2008-94	SEC's Findings of Section 404(a) Deficiencies for First Time Filers, December 31, 2008
CAQ Alert #2007-66	Items to Consider Regarding Management's Report on Internal Control for Audits of Non-Accelerated Filers, December 19, 2007
CPCAF Alert #110	COSO Issues Internal Control Over Financial Reporting Guidance for Smaller Public Companies, July 12, 2006

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