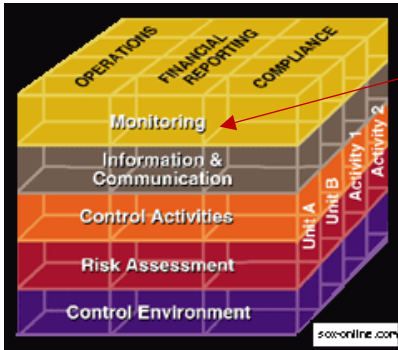


COSO's new Monitoring Guidance

COSO is recognized world-wide for guidance on internal control. In 1992, COSO introduced the *Internal Control-Integrated Framework*. In April 15, 2008, COSO released new guidance to more fully develop the monitoring component of the COSO framework and is designed to help entities monitor the quality of their internal control systems.¹

COSO Cube



Effective monitoring is based on two related principles:

- On-going monitoring within operations and separate evaluations by individuals outside of operations that enable management to determine if internal controls continue to function over time; and
- Internal control deficiencies are to be communicated in a timely manner to those responsible for taking corrective action and to executive management as appropriate.

COSO's new Monitoring Guidance expands on the two related principles above.

- An initial evaluation of controls is a form of monitoring that results in a baseline understanding of effectiveness of controls that can be monitored in the future;
- Monitoring should assess if management (1) reconsiders the design of controls when risks change, and (2) verifies the continued operation of controls that are designed to reduce risks to an acceptable level;
- A deficiency in one control component might be mitigated by other controls that are strong enough to reduce the risk of internal control failure to an acceptable level.

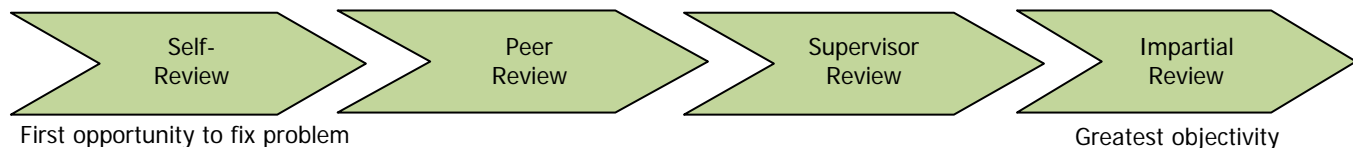
Key Elements of the Monitoring Model

Foundation	Tone from the top Organizational structure - management and evaluators Baseline understanding of internal control effectiveness
Procedures	Prioritize risks to organizational objectives (risk-based) Identify key controls that address prioritized risks Identify persuasive information (relevant, reliable, and timely) Implement cost effective monitoring procedures for evaluation
Assess and Report	Prioritize findings (individual and aggregate effect of deficiencies, and corrective action) Reporting results (operational/oversight responsibility and one level higher) Follow up on corrective action where necessary

Evaluators

Monitoring is conducted by evaluators who are appropriately competent and objective in the given circumstances.

- Competent refers to the evaluator's knowledge of the controls and related processes, including how controls should operate, and what constitutes a control deficiency.
- Objectivity refers to the extent to which he or she can be expected to perform an evaluation with no concern about the possible personal consequences. Objectivity can be viewed along a continuum from least to most objective.



¹ Concepts are taken from the Committee of Sponsoring Organizations of the Treadway Commission's *Guidance on Monitoring Internal Control Systems* (exposure period ends August 15, 2008)