



Larry E. Rittenberg, Chair
Mark Beasley, American Accounting Association
Chuck Landes, American Institute of CPAs
Michael P. Cangemi, Financial Executives International
David Richards, Institute of Internal Auditors
Jeff Thomson, Institute of Management Accountants

August 19, 2008

Mr. Arthur Levitt, Jr.
Mr. Donald Nicolaisen

Co-chairs, U.S. Treasury Department Advisory Committee on the Auditing Profession

Re: Advisory Committee Recommendation Regarding a National Fraud Center

Dear Mr. Levitt and Mr. Nicolaisen,

We are writing to comment on Recommendation #1 of the subcommittee on Firm Structure and Finances contained in the Second Draft Report of the U.S. Treasury Department's Advisory Committee on the Auditing Profession ("ACAP" or "the Advisory Committee"). The Advisory Committee correctly points out the importance of dealing with fraud. We would like to reiterate COSO's long-standing commitment to addressing the problem of fraudulent financial reporting starting with the Treadway Commission and its *Report of the National Commission on Fraudulent Financial Reporting* in 1987. That report contained a number of recommendations designed to reduce the incidence of fraudulent financial reporting. Some of the recommendations were implemented immediately while others required legislative action, some of which were included in the Sarbanes-Oxley Act of 2002.

COSO has continued to address the issue of fraudulent financial reporting, including issuing an update study *Fraudulent Financial Reporting* which provided an analysis of SEC actions dealing with fraud from 1987 – 1997. Again, that report identified patterns in the nature of the companies that had engaged in fraudulent financial reporting, as well as patterns of fraud. We are continuing that process and have engaged a research team to update our data on fraudulent financial reporting by looking at U.S. Securities & Exchange ("SEC") cases from 1997 – 2007. The researchers are currently in the process of analyzing the data. They are matching the characteristics of companies that have engaged in fraudulent financial reporting to an expanded sample of companies in similar industries and of similar sizes that were not involved in

fraudulent financial reporting. We believe the matched pairs contrast will provide even richer data by which we can better identify companies that are likely to engage in fraudulent financial reporting and how they go about committing the fraud. Our plan is to complete that project during the 2008 calendar year.

As a brief reminder and update, COSO is a committee of sponsoring organizations – each of which are listed on the letterhead. The funding from COSO came initially from those five organizations. However, since that time, COSO has been able to fund all of its projects through the sales of its frameworks and guidance, and has adequate funds and support to continue our current activities. The COSO Board has been engaged in strategic planning for the past year to consider our future plans and address areas such as (a) increased global presence, (b) improved focus on enterprise risk management, (c) rationalization of our existing frameworks, (d) increased work in preventing and detecting fraud, and (e) evaluation of potentially adding one or two additional organizations to COSO that would represent areas in which we seek additional breadth and depth.

Recommendation #1 of ACAP's subcommittee on Firm Structure and Finances states:

Urge the [] to create a national center to facilitate auditing firms' and other market participants' sharing of fraud prevention and detection experiences, practices, and data and innovation in fraud prevention and detection methodologies and technologies, and commission research and other fact-finding regarding fraud prevention and detection, and further, the development of best practices regarding fraud prevention and detection.

We view this recommendation with interest as the subject of fraud led to the original formation of COSO. We have commissioned research in the fraudulent financial reporting area and we expect to continue to do so in the future. We believe the organizations that participate in the area of fraud prevention, including COSO, could work together to further develop the sharing of best practices. We would be open to discussing a leadership role for COSO in such a development. It should be noted that we strongly believe that best practices should NOT be limited to the audit profession and should be extended to the entire supply chain of activities where fraud occurs or could be prevented. Thus, COSO is uniquely positioned to offer assistance in this balanced approach to achieve the overarching goal of reducing the incidence of fraud.

We would be pleased to meet with either of you or members of the Advisory Committee to better understand your ideas to reduce the incidence of fraud and how COSO may be able to assist in this critical endeavor. Simply put, we seek additional information to better determine the role that COSO might play to accomplish our mutual objectives of reducing the incidence of fraud and to determine best ways to prevent and detect fraud.

As you continue to consider and discuss the above recommendation, we think it is important to consider the following characteristics and accomplishments of COSO:

1. Although a Committee of its sponsoring organizations, the COSO Committee is governed by a board with one representative from each of the five organizations and a Chair, which

may or may not come from current board membership (but must be a member of one of the five organizations).

2. COSO has developed frameworks on internal control and enterprise risk management which have been translated for use in various countries around the world. We are committed to supporting and enhancing the guidance in those frameworks, including the risk of fraud.
3. COSO is independent of both public accounting and preparers of financial statements and has acted to set suitable internal control and enterprise risk management criteria that are in the public's best interest. Its five sponsoring organizations independently represent many communities in the global accountant's value chain, including internal audit, external audit, academics, CFOs and management accountants (preparers).
4. COSO has worked with a variety of organizations including public accounting firms such as PricewaterhouseCoopers and Grant Thornton in developing its guidance. However, all of the guidance has been developed under the leadership of large task forces that represent the broader constituency of COSO stakeholders. COSO has performed three major studies on fraud (including one in process) that have utilized combinations of academic and independent practitioners (Treadway Commission) or have been performed by academic teams (1997 Report on Fraud and our forthcoming study).
5. COSO has shown a willingness to work with organizations outside of its five sponsoring organizations, and will continue to do so, where appropriate. This would include engaging investor representatives in areas where we feel there is a willingness to contribute.

In summary, COSO is strongly committed to continuing our efforts to reduce and eliminate fraud (both defalcations and fraudulent financial reporting) through the development of strong internal control and enterprise risk management frameworks as well as the development of prevention and detection best practices. We would be pleased to discuss our mutual interests in this area and would be open to discussing strategies that might involve collaboration with other organizations, as well as learning more about your vision of approaches to better address the prevalence of fraud.

On Behalf of the COSO Board,

Sincerely,

Larry E. Rittenberg, PhD, CPA, CIA

cc M. Beasley
C. Landes
M. Cangemi
D. Richards
J. Thomson