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Mr. Christopher Cox, Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Mr. William Gradison, Acting Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Reference: File Number 4-511; Internal Control Roundtable

Gentlemen:

Alamo Group is a leader in the design, manufacture, distribution and service of high quality equipment for right-of-way maintenance and agriculture. The Company has over 2,200 employees and operates fifteen plants in North America, Europe and Australia. Our net sales for 2005 were $368 million, and our market cap is about $220 million. I directed our Section 404 internal control assessment for the past two years, and write to provide an update on compliance efforts in preparation for the related roundtable discussion scheduled for early May.

Our second Section 404 management assessment was more focused and more efficient as a result of better organization, a risk assessment performed as part of the planning process, and improved coordination with our external auditors. While our external audit fees relating to SOX 404 decreased, our internal cost of compliance increased. We estimate that our total cost of Section 404 compliance, including both management's and our external auditor's assessments for 2005, decreased roughly 14%.

Our total cost of SOX 404 compliance included management and staff time, outside assistance and related external audit fees. The single largest identifiable component, representing over 40% of our total cost, was the external audit fee associated with Section 404 work. In 2004, the first year of compliance, our external audit fees increased roughly 60% due to SOX 404 alone. In 2005, SOX 404 resulted in our external audit fees remaining roughly 40% higher than they were in 2003. While we hope to become still more efficient in the future, we do not foresee any substantive effect on our external audit fees or our total cost of compliance, which we continue to regard as unacceptably high.

In addition to our experience and concerns about the cost of compliance, we note that most of our SOX 404 work involved repeating tests to get the same results we obtained in the previous year. In many cases we had the same control procedure performed by the same people using the same computer systems. We nevertheless spent considerable time performing compliance tests to document our conclusion that related controls were still working as they were before. The effort again required that we redirect our focus from process improvement to process documentation. Instead of working to get better, we again worked to assemble evidence to support our judgement that controls were still working. This repetitive work had little value and contributed to our conclusion that the substantial costs of compliance were disproportionately high relative to the benefits received.

Our experience with implementing existing Section 404 requirements for the past two years continues to suggest a very badly skewed cost/benefit relationship. To improve that relationship, we urge the Commission and the PCAOB to consider these changes:

A. Define principles-based requirements for management's assessment. Although Section 404 of the Act emphasizes the need for management to perform an assessment of internal control, the extensive rules, regulations and interpretations issued by the Congress, PCAOB and SEC to date curiously provide very little guidance concerning what is required of management. In contrast we note that the Turnbull guidance, which appears to have been successfully applied to matters of internal control in the UK for a number of years, provides only guidance on what is required of management and the Board.

While describing results of a progress review in October 2005, the Financial Reporting Council of the UK noted that "the evidence gathered by the Review Group demonstrated that respondents considered that the substantial improvements in internal control instigated by application of the Turnbull guidance have been achieved without the need for detailed prescription as to how to implement the guidance. The principles-based approach has required boards to think seriously about control issues and enabled them to apply the principles in a way that appropriately dealt with the circumstances of their business. . . . Accordingly, the Review Group strongly endorsed retention of the flexible, principles-based approach of the original guidance . . . ."

Given the apparent success of the internal control improvement program in the UK together with the limited guidance presently available to management in the US, we strongly urge the definition of similar principles-based requirements for management's assessment. For purposes of illustration and discussion, we offer the attached Exhibit A outlining management requirements that we believe are both reasonable and beneficial to our shareholders.

B. Define similar requirements for the public accountant's report on management's assessment. Congress passed an Act that requires in its Section 404 that "each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer". Congress DID NOT require each public accounting firm to perform its own, independent, comprehensive assessment of internal control along with management's assessment. PCAOB standards suggest that it is neither possible nor desirable for a public accounting firm to attest to and report on management's assessment without first performing their own comprehensive assessment of internal control. Those standards clearly indicate each firm's assessment is to be largely in addition to management's assessment " . . . so that the auditor's own work provides the principal evidence for the auditor's opinion".

Our experience suggests that this PCAOB requirement gives rise to the largest, single identifiable component of our compliance cost. We believe requirements should be better aligned with Congressional intent by eliminating the need for each accounting firm to perform a second, independent, comprehensive and redundant assessment of internal control. We further believe the PCAOB can and should provide reasonably objective criteria by which each public accounting firm can attest to and report on management's assessment. Assuming management requirements as described in Exhibit A are made available, illustrative criteria for each public accounting firm's attestation and reporting against those requirements are included the attached Exhibit B.

Key components of the approach illustrated in Exhibits A and B are summarized below:

- Responsibility for the selection of specific control procedures and the identification of acceptable risks rests with management and the Board. They document their judgement by identifying risks they view as pertinent to their business together with the control procedures they elect to put in place to mitigate those risks. Testing of all control procedures is performed over a two to three year period on a schedule that is acceptable to the Audit Committee of the Board, and the Audit Committee monitors results.

- Each year the public accountant independently obtains evidence that appropriate procedures in the company's control environment are in place and operating effectively, irrespective of whether those procedures were identified or tested by management. Additionally the public accountant closely reviews management's assessment to determine if it was performed in accord with SEC requirements. The public accountant reports any situation where, in his or her judgement, SEC requirements were not satisfied and/or any situation that was inconsistent with management's report on internal control as noted through the public accountant's review of management's assessment or the public accountant's financial audit.

We believe the illustrated approach offers several advantages over current requirements:

Control procedures relevant to any business are recognized as scalable, in that their selection is expressly defined as a matter of judgement exercised by management in light of such considerations as the size of the business, the complexity of its systems and procedures and the need to appropriately allocate resources. The approach recognizes that control procedures are selected in a manner that management believes will provide reasonable, but not necessarily absolute, assurance that errors or irregularities in an amount that management believes to be material will be prevented or detected. Concerns about a "one size fits all" approach are avoided.

Internal management costs are reduced, in that all testing does not have to be repeated every fiscal year and can be spread over a more reasonable period of time. While a fairly extensive, documented control plan would be required, most if not all of the related information should be readily available to those registrants who have already worked to comply with Sarbanes-Oxley. Additionally the control plan, like the control procedures themselves, would be scalable, thereby reducing relative costs for smaller registrants and eliminating the need for tiered requirements.

External audit costs should be substantially reduced, as the public accountant would no longer be required to perform an independent, comprehensive assessment of internal control along with management's assessment. In addition to providing assurance that management did in fact perform an substantive assessment that meets SEC requirements, the public accountant focuses largely on the control environment – the foundation for all other components of internal control that seemingly was absent in many of the corporate situations that gave rise to the Sarbanes-Oxley Act itself.

Shareholder interests are better protected, in that both management and the public accountant avoid perfunctory testing and can focus on more substantive matters. Additionally the Audit Committee of the Board becomes more involved in identifying acceptable levels of risk and monitoring the effectiveness of the system of internal control.

Respectfully submitted,

Dennis M. Stevens
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Exhibit A

Management's Annual Assessment of Internal Control Requirements

Scope

Management's assessment should address the design and operation of internal control procedures on at least three broad levels:

1. Control Environment – which generally includes such things as management's control consciousness, integrity and behavior, human resource policies, performance reward systems, and participation in governance and oversight by senior management, the Board of Directors and its Audit Committee.

2. Information Technology General Controls – which generally includes those control procedures unique to a computerized environment that can affect financial results in a number of areas. Such control procedures typically include those relating to the modification of computer programs used to record, process and report financial results, those procedures used to ensure appropriately restricted access to key data, computerized functions and technology resources, and those backup and recovery procedures in place to ensure continuation of business processing in the event of unforeseen interruptions in service.

3. Process, Transaction or Application Controls – which generally are more detailed control procedures designed to prevent or detect specific errors in recording, processing or reporting financial results. Such control procedures typically include the segregation of duties and levels of authorization, the reconciliation of various general ledger control accounts to their supporting detail, various forms of edit, completeness or other checks incorporated in computerized routines, and various checks and balances performed as part of the monthly closing process.

Management may add other areas or levels of concern as may be considered appropriate to the size and complexity of their business.

Control Plan

While mindful of the assessment scope discussed above, management should document the design of internal controls by developing a control plan framework that identifies:

a) Material account balances and other data periodically reported to shareholders,
b) Business processes that are used to develop or can otherwise affect reported material balances and other data,
c) The risks of errors or irregularities in each identified business process, and
d) The control procedures designed to mitigate each identified risk.

Management's Annual Assessment of Internal Control Requirements

The control plan should document the manner in which management elects to define materiality, and management should coordinate with their external auditor in this regard. As an example, a material balance or other piece of data may be defined as one whose value equals or exceeds 5% of net income before tax. The definition of materiality should be consistent with that used or intended to be used by the external auditor in the audit of financial results, and should generally be consistent with the definition used by management in prior years.

The selection of specific control procedures and the related degree of acceptable risk is a matter of judgement exercised by management in light of such considerations as the size of the business, the complexity of its systems and procedures and the need to appropriately allocate resources. Control procedures should be selected in a manner that management believes will provide reasonable, but not necessarily absolute, assurance that errors or irregularities in an amount that management believes to be material will be prevented or detected.

The control plan should be sufficiently detailed to demonstrate that management carefully considered the business's processes as well as the risks inherent in them and identified control procedures designed to mitigate each risk to a degree acceptable to management. Once developed the control plan should be continuously monitored and updated as needed to reflect underlying changes in the business environment or related procedures. Accordingly, the control plan should describe the methods and measures that management uses to identify such changes and reflect them in the control plan in a timely manner.

At least annually, the Audit Committee of the Board of Directors should review the control plan to determine if it includes a reasonably comprehensive description of risks relating to information provided to shareholders. Each year the Audit Committee should also review and approve management's assessment of the degree to which the design of internal control procedures is intended to mitigate each risk.

Determining Effectiveness

Effective monitoring on a continuous basis is an essential component of a sound system of internal control. Management should review and test the design of internal controls documented in the control plan as management considers necessary to determine if control procedures are operating effectively. The frequency and scope of testing is generally a matter of judgement exercised by management, although management should again coordinate with their external auditor in this regard.

In management's initial assessment of internal control, testing should be of sufficient scope to assess the effectiveness of at least one control procedure associated with each risk identified in the control plan. If a control procedure is tested and found to be ineffective, management should generally work to improve the effectiveness of the selected procedure and expand the scope of testing to include other control procedures that serve to mitigate the related risk(s).

In subsequent annual assessments, management may consider such things as changes in personnel, systems or procedures and their affect on controls to identify procedures to be tested. Management may elect to test certain control procedures frequently while others may be tested only once in a two or three year period. Testing over a two or three year period should be of sufficient frequency and scope to assess the effectiveness of all control procedures associated with all risks identified in the control plan.

Management's Annual Assessment of Internal Control Requirements

Management should prepare a testing schedule in sufficient detail to identify each risk and the year(s) in which related control procedures will be tested. That schedule should be reviewed with and approved by the Audit Committee of the Board of Directors at least annually.

Reporting

Considered as a whole, management's control plan, testing schedule and documentation of testing results should support management's internal control report required under the provisions of Section 404 (a) of the Sarbanes-Oxley Act of 2002. That report should state that management's assessment was conducted in accord with these requirements and contain an assessment, as of the end of the most recent fiscal year, of the effectiveness of internal control.

Additionally, management should regularly provide progress reports on the results of their testing and other monitoring efforts to the Audit Committee of the Board of Directors. The reporting schedule should be approved and monitored by the Audit Committee, and reports should provide a balanced assessment of the significant risks and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they had or may have had on the company and the actions being taken to rectify them.

A <u>significant</u> control failing or weakness generally refers to a situation where all or most control procedures put in place to mitigate one or more risks were tested, found ineffective, and not rectified for a period of time. During that time the business was exposed to the related risk(s) to a degree that management did not intend. A <u>material</u> control failing or weakness refers to a situation where, in the opinion of management, a significant control failing or weakness existed for a period of time sufficient to allow a material adverse affect on any of the account balances or other data identified in the control plan.

Management should report any material control failing or weakness in the internal control report required under the provisions of Section 404 (a) of the Sarbanes-Oxley Act of 2002 as well as in its periodic reports to the Securities and Exchange Commission.

Exhibit B

The Public Accounting Firm's Report
On Management's Assessment

Section 404 of the Sarbanes-Oxley Act of 2002 requires "each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer". Such attestation is to be made in accordance with standards for attestation engagements issued by the Public Company Accounting Oversight Board.

When reporting on its assessment of internal control, management makes two principal assertions: 1) that management's assessment was conducted in accord with related requirements promulgated by the Securities and Exchange Commission, and 2) that management's reported conclusions concerning the effectiveness of internal control were fairly described.

The public accountant should review, evaluate and test management's assessment process as necessary to determine if it was conducted in accord with related requirements promulgated by the Securities and Exchange Commission. The public accountant's work should include, but not necessarily be limited to, determinations as to whether:

a) the scope of management's assessment appeared appropriate in light of related requirements as well as the size and complexity of management's business,
b) management's control plan appeared sufficiently detailed to demonstrate that management carefully considered the processes and risks inherent in the business and identified control procedures designed to mitigate each risk to a degree acceptable to management,
c) management's control plan included a definition of materiality that was largely consistent with both the definition of materiality the public accountant used in the current audit of financial results and the definition of materiality used by management in their prior assessment, if any,
d) management's control plan described the methods and measures that management uses to identify underlying changes in the business environment or related procedures and reflect them in the control plan in a timely manner,
e) the Audit Committee of the Board of Directors reviewed and approved all risks identified in management's control plan together with management's assessment of the degree to which the design of internal control procedures was intended to mitigate each risk.
f) management prepared a testing schedule in sufficient detail to identify each risk and the year(s) in which related control procedures will be tested,
g) management's testing schedule was prepared in accord with related requirements for initial and subsequent annual assessments,
h) management's testing schedule was reviewed with and approved by the Audit Committee of the Board of Directors at least annually,
i) the amount of testing performed in the current fiscal year appeared sufficient to support management's conclusions as to the effectiveness of control procedures tested in the current fiscal year,
j) management regularly reported to the Audit Committee on the results of their testing and other control monitoring efforts on a schedule that was approved and monitored by the Audit Committee,
k) all material control failings or weaknesses noted by management were included and appeared fairly described in management's internal control report required under the provisions of Section 404 (a) of the Sarbanes-Oxley Act of 2002.

Exhibit B

The Public Accounting Firm's Report On Management's Assessment

Additionally, the public accountant should review and test management's assertion concerning the fairness of management's conclusions on the effectiveness of internal control as follows:

1. The public accountant should independently obtain evidence that procedures he or she considers key in the company's control environment are in place and operating effectively, irrespective of whether those procedures were identified or tested by management. This evidence should generally be obtained over the course of the fiscal year in conjunction with the public accountant's timely review of quarterly results. Any significant control failing or weakness noted by the public accountant should be reported to both management and the Audit Committee of the Board of Directors in a manner that permits timely consideration of disclosure in the company's periodic reports to the Securities and Exchange Commission.

2. Additionally, the public accountant may elect to independently obtain evidence as to the effectiveness of any control procedure or group of control procedures that the public accountant intends to rely upon to support the effective or efficient execution of the public accountant's plan for the audit of financial results. Alternatively, the public accountant may elect to coordinate with management so as to ensure such control procedures are included in management's testing schedule and tested sufficiently to support reliance by the public accountant after his or her review and test of management's results.

3. Finally, while performing the audit of financial results the public accountant should be alert to identify any circumstance or condition that suggests control procedures identified in management's control plan are not effective. Such circumstances or conditions should be reported to management for investigation, resolution and reporting when appropriate.

The public accountant's report on management's assessment would generally be expected to indicate that: 1) management's assessment was performed in accord with related requirements promulgated by the Securities and Exchange Commission and 2) nothing came to the public accountant's attention in the course of reviewing and testing management's assessment or in the course of performing the financial audit that was inconsistent with management's report on internal control as of the end of the most recent fiscal year. Any exceptions noted should be described in the public accountant's report on management's assessment.