Comments on File No. S7-11 -06
9/14/2006

Introduction

1. Yes, additional guidance on how to evaluate the effectiveness of the internal controls over financial reporting would be useful. The guidance should be scalable so that all reporting companies subject to the Section 404 requirements can benefit. The difficulty with developing guidance that can be applied by most or all reporting companies is determining when to use broad concepts versus providing specific details. If the anticipated outcome of adherence to the guidance means compliance, using only broad concepts could result in management doing the bare minimum. This could diminish some of the benefits realized thus far. If the guidance has too many details then it could be perceived as mandated policy. This could result in a "one size fits all" approach, eliminating the flexibility needed for variations in size, industry, etc.
2. No comment.
3. The guidance should, for the most part, be limited to articulation of broad principles. Details, if any, should be limited to areas whose concepts are best described with examples or where consistency is needed for better evaluation and comparison.
4. No comment.
5. Interpretive guidance (versus a rule) might allow for the use of more examples, allowing for flexibility in an organization's approach on evaluating the effectiveness of the internal controls over financial reporting.
6. No comment.
7. No comment.
8. COSO was selected because of the availability of information. Yes, companies would benefit from the development of additional frameworks.
9. The guidance should incorporate any and all previous communications related to the topics covered, especially where the previous information provided clarification.
10. Yes, alternatives should be considered to the current role (approach) of outside auditors in connection with management's assessment. Much of the outside auditor's verification focuses on visual documentation of a control activity (i.e. physical signatures), even in the case where management's oversight is more information based (i.e. discussion or analytics). Outside auditors should employ more inquiry based assessments to determine the level of management's direct knowledge of the control activities.

Risk and Control Identification

11. The guidance provided in May 2005 sufficiently covered the broad concepts around implementing a "top-down, risk-based" approach.
12. The current guidance does not provide sufficient information regarding identifying controls that address the risk of misstatement. As such, the tendency tends to be identifying controls for "what could go wrong". Additional guidance should focus on the importance of identifying relevant financial assertions for a significant process and their connection to control objectives, related risks, entity-level controls and "key" controls activities.
13. No comment.
14. No comment.
15. Previous guidance adequately addressed entity-level controls and their impact on assessing the effectiveness of internal controls over financial reporting. The difficulty tends to be more in the application, i.e. how to leverage the effectiveness of the entity-level controls to reduce testing of "key" control activities over significant processes.
16. Yes, the guidance should address the appropriateness of and extent to which quantitative and qualitative factors should be used when assessing risks and identifying controls for the entity. Examples of a few factors to consider:
    a. Complexity of significant process
    b. Level of experience of accounting personnel
    c. Management's involvement with day-to-day accounting operations
    d. Maturity of centralized accounting organization
    e. Prior year findings/exceptions
17. No comment.
18. No comment.

Management Evaluation

19. The guidance should address how to connect entity-level controls to the related financial assertions for a significant process. For example, entity-level controls include an annual budgeting process, a detailed forecast vs. actual variance analysis process that occurs every reporting period and the proper segregation of duties (via system access). For expenditures at the transaction level there is an approval process and reconciliation of all bank accounts monthly. Additionally, Payroll related expenses represent 80% of the company's total expenditures and the related transaction level control activities have been identified and tested. Provided testing in all of the above results in no findings/exceptions, is there a need to perform transaction level control testing of any of the remaining expenses?
20. Yes, guidance on how management's assessment can be based on evidence other than that derived from separate evaluation-type test of controls would be useful. Specifically, how to support management's assessment through their direct knowledge of control activities.
21. No comment.
22. Guidance should address how activities such as risk, materiality, likelihood of an error, and prior year audit findings factor into the nature, timing and extent of testing when management determines that separate evaluation-type testing is necessary.

23. No comment.
24. No comment.
25. No comment.
26. No comment.
27. Yes, guidance addressing the circumstances under which a restatement of previously reported financial information would not lead to the conclusion that a material weakness exists in the company's internal control over financial reporting would be helpful.
28. No comment
29. Guidance regarding IT general controls should address the standard activities that are reviewed as part of internal controls over financial reporting, such as system access controls, systems and program modifications, etc.
30. No comment.

Documentation to Support the Assessment

31. The excessive documentation was a direct result of not having sufficient guidance for management regarding risk and control identification. As such, the perception was that documentation had to address all the "what could go wrong" scenarios. Documentation will naturally evolve as more information is provided.
32. No comment
33. No comment
34. Documentation regarding information technology controls should follow the same guidance issued for all other controls over financial reporting.
35. No comment.