Comments on SEC Concept Release Concerning Management's Reports on Internal Control over Financial Reporting

The numbers below refer to the number associated with the question posed by the SEC.

2. We would hope there is no difference in the basic requirements for foreign private issuers and domestically-based companies. As a subsidiary of a foreign-based company, some of our processes / accounts have been scoped out of SOX, based on their minor impact on the company's total financial position. However, the documentation and testing requirements for those processes / accounts still in scope are considered to be the same as if we were a domestically-based company.

5. We prefer to receive guidance in the format of a Commission rule because these are easier to follow, more clear, and less open to erroneous interpretation.

8. We used the COSO framework because it was recommended by the consulting firm that assisted us early in the documentation phase. It was also the framework used by our parent company. This framework, however, isn't the best for IT controls. We would have preferred to use Cobit for IT. We surmise COSO was used because it's fairly easy to explain and understand. We're now using some of the Turnbull Report framework terminology, which will take awhile for our employees to learn and understand.

9. Yes, the guidance should incorporate the May 16, 2005 "Staff Statement on Management's Report on Internal Control over Financial Reporting". We found this information to be very valuable.

10. Implementing the appropriate role of outside auditors in connection with the SOX 404 management assessment is a challenge. Outside auditors traditionally have used a bottom-up approach, working at the transaction level to ensure accuracy and completeness of financial information. Corporate compliance with SOX 404, per the newer guidance from the SEC and PCAOB, encourages companies to take a more top-down, risk-based approach. Since auditors are now usually incorporating SOX audits into the regular financial audits, it's a challenge for the same auditors to utilize the two different approaches during the same review.

We agree that one of the causes of the excessive number of internal controls some companies, identified, documented and tested, was the overly conservative application of AS No. 2 by auditors in the initial years. We would hope we don't have to wait for lawsuit settlements in order to have a comfortable sense that we're meeting the spirit and the letter of the law.

11. "Top-down, risk-based" approach to identifying risks to reliable financial reporting and the related internal controls is becoming a common phrase, but there is a lot of room for interpretation and mis-interpretation. We would like to see specific examples in a few case studies. For example, how can we evaluate experience and competence as part of the risk evaluation? Can we use our own

hiring standards (an example of a companywide control) to show how at least some risks are mitigated at a higher level, rather than at the transaction level, and can therefore have a different type of testing?

15. We'd like to see guidance on when we can use entity level controls versus low-level account and transactional controls. We'd also like to see it recognized that more experience should allow for fewer (or different) transaction controls. We believe that an experienced person performing a transaction is, by itself, a mitigating control. How can we account for this?

16. Yes, we believe guidance should be given about the appropriateness of and extent to which quantitative and qualitative factors, such as likelihood of an error, should be used when assessing risks and identifying controls for the entity.

17. Yes, we'd like to see more guidance regarding fraud controls. The guidance should include examples from various industries. What is the burden of proof? eg. How much can we rely on management reviews and sign-offs alone? This seems to go back to our comments about the role of an individual's experience and competency.

18. Yes, we'd like guidance to help companies with multiple locations or business units. We're currently keeping most run-off business units (companies we've acquired with relatively minor balances) out of scope. We're also testing key controls only at locations that have a somewhat significant volume passing through them. We could use guidance to help determine what volume or dollar amount qualifies as "material".

20. It would be very helpful to receive guidance on how management's assessment can be based on evidence other than that derived from separate evaluation-type testing of controls, such as on-going monitoring activities. We haven't used this to date and would like to know how this could be used to make the assessment more efficient.

23. We'd like to know whether and how testing and conclusions can be streamlined if no changes have been made to a key control during the year.

24. We have run into particular issues in evaluating deficient controls that have only an indirect relationship to a specific financial statement account or disclosure. For example, for several of the IT controls like system access and backup it's very difficult to determine a potential likelihood or magnitude of financial misstatement. How should these be evaluated so they can be properly classified?

25. It would be most helpful if guidance regarding the definitions of the terms "material weakness" and "significant deficiency" were scalable to be meaningful to companies of various sizes.

26. If the terms above were defined it would be more clear how management could conclude that no material weakness in internal control over financial reporting exists despite the discovery of a need to correct a financial statement

error as part of the financial statement close process. If an error was discovered during the close process and therefore prior to finalization of the statements, it could be argued that the identification of this error actually meant the controls in this final segment of the process were effective at discovering an earlier error. Through the subsequent analysis, the deficiency in an earlier process or control ought to be identified and corrected.

27. Could you give examples of 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?

28. Please elaborate on how benchmarking strategies can be used to gain efficiency in evaluating the effectiveness of internal controls.

29. As mentioned in #24, it's not clear what criteria should be considered to determine which IT controls have a direct impact on the preparation of financial statements. A specific area of guidance that we'd like to see is how to define what makes an end user computing application SOX-relevant and requiring testing.

32. We're currently assuming that source documents, electronic data, etc. used in the performance of key controls must be kept for 18 months to allow our external auditors to select samples that weren't previously tested and perform their own tests. We've also been instructed by our parent company to keep our test results for seven years. We'd like guidance regarding what must be kept, and for how long, as evidence of our initial risk assessment and account scoping.

34. Our testing of automated IT controls frequently requires just a screen print showing an example of what is NOT allowed. Examples would be system access, approvals over limits or by unauthorized people, invalid data entry, etc. We would appreciate guidance as to whether this is adequate evidence.

Finally, we would also like clarification as to the overall objectives of the documentation, including how to address controls for which conducting the control does not result in documented evidence. For example, if a control involves a review of data, we're currently looking for tickmarks, notations and/or initials on the report as evidence of the review. This, however, doesn't prove that the review was complete.

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