Corporate Financial Reporting & Performance
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HYDRO

Ms. Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
USA

File Number S7–11–06; Concept Release Concerning Management's Reports

Dear Ms. Morris,

Norsk Hydro is a Norwegian private issuer (a Fortune 500 Company) with worldwide operations primarily in the oil & gas and aluminium business areas. We appreciate the opportunity to provide our response to certain of the questions raised in the Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting.

In general, we believe high-level and more direct guidance for management in all areas will be a positive development in communicating the intention of the regulations, provided management retains appropriate levels of flexibility for their respective business operations and risks. We have focused our written response below on questions in the Concepts Release where we believe our input will be most valuable. Our comments only comprise those parts of the internal controls that we have found necessary to document and test management's assessment of ICOFR for entities and processes in scope.

1 Top-Down Risk Based Approach (Q11, 15)

A top-down, risk-based approach is founded on the premise that not all accounts, transactions, and risks are equally important. Focus should be on establishing controls over the high-risk areas such as entity-level controls (the control environment, period end financial reporting, anti-fraud programs), some general computer controls (ref. section 3), controls over non-routine accounts and accounts with significant judgment.

We seek more specific guidance that reduces the documentation scope of low risk areas like controls over routine and transactional processing.

2 Company Level Controls – Approach for Group of Entities (Q12, 15, 20)

Implementing ICOFR documentation requirements is specifically demanding for groups or multinational companies with a large number of small subsidiaries throughout the world. Management of small businesses within a group perceive adherence to the SOX requirements as strict, detailed, administrative requirements and rules, and as such, the SOX regulations are a contradiction to established organizational culture and a general understanding of how smaller companies should be managed. As with many other companies under SOX regulations, we have experienced the high cost of developing and documenting the significant numbers of detailed process level controls, and are concerned with the imbalance between importance (perceived financial reporting risks) and number of controls. This kind of imbalance has become evident in Hydro. Implementation cost in one of our Group of Entities (a separate business area) representing 10-15 % of Hydro's total revenues is three times the implementation cost of our most significant business area constituting 50% of total revenues.

The latest guidance from the SEC inviting filers to use a top down risk based approach for the ICOFR implementation work has contributed positively to changing the focus and orientation towards high financial reporting risks. However, our general impression is that the requirements in Auditing Standard no. 2 make it challenging to find the right and most cost effective level of documentation for entities belonging to a Group of Entities. The rules and guidelines are general and open for subjective interpretation, and we therefore believe that high-level guidance on how to address less significant in-scope entities would be beneficial and necessary to further focus on what is important to a large multinational company. For example:

- The top-down risk-based approach should also be reflected in the control documentation. This will require guidance from the SEC as to expectations to the most important controls such as period-end closing controls (including non-routine transactions and judgmental items), general computer controls and antifraud controls. Focus on these controls will strengthen the overall control environment, and as a result, typical processes level controls addressing low financial reporting risks could be de-emphasized and replaced by control documentation evidence such as policy statements, procedural requirements and monitoring controls that are already part of established business and reporting processes.

- De-centralized activities lower the financial reporting risks for a group due to the fact that such operations often are independently organized and the size and low complexity of the entities make the business more transparent. From a corporate management perspective, monitoring controls and benchmarking of the units would disclose significant abnormal financial reporting errors. Experience and competence should allow for fewer or high-level transaction controls. Consequently, an acknowledgement from SEC stating that high level review controls (analytical reviews, key performance indicators) can be used as a stand alone control - and not only a way to reveal an issue/control discrepancy – would help clarify the appropriate level of control documentation.

- Formality requirements should be de-emphasized and allow for more flexibility when it comes to control documentation for small in-scope entities that are part of a group/multinational company. This will be an important element for cost reductions, and in the long run, contribute to focusing on the "right things" and to reduce resources being used on maintaining the formal SOX control documentation at remote sites.

3 General Computer Controls (Q29, 30, 34)

The reliance on the IT environment has attracted much attention doing SOX compliance, which in turn has generated a substantial control environment for the ICOFR relevant systems. Our observation is that it is difficult to draw the line when implementing General Computer Controls, which in turn generates a lot of IT controls that are very 'far' from financial reporting.

Using the SOX CobIT model helps in focusing somewhat on the relevant control objectives for SOX, but we seek clearer guidance from SEC on which areas to focus on. We believe that guidelines should focus on controls over security and access, change controls and controls addressing segregation of duties.

4 Testing of Internal Controls over Financial Reporting (Q10, 22, 23)

Hydro has engaged internal audit and external consultants working on behalf of internal audit to carry out management's testing. In addition, external audit will perform their independent testing of ICOFR, often in many of the same business areas and processes. Given that management's testing follows the general auditing guidelines for testing, there is a risk that subsequent testing carried out by the external audit will be identical to management testing, and thus be of low value to the overall certification process.

We suggest that the SEC give further guidance on when external audit can limit their independent testing of ICOFR for important or high-risk areas based on work performed by others. Such guidance should also encompass how management should organize and document their testing in order to avoid time consuming and low value redundant testing.

We look forward to the future benefits of the additional guidance that the Commission provides as a result of this Concepts Release.

Yours faithfully,
for Norsk Hydro ASA

Christian Kjellberg
Vice President
Corporate SOX