



September 8<sup>th</sup>, 2006

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

Reference: File number: S7-11-06

Intel Corporation is pleased to provide input regarding the SEC Concept Release concerning Management's Reports on Internal Control over Financial Reporting issued July 11<sup>th</sup> 2006. We appreciate both the SEC's and PCAOB's willingness to improve existing guidance as Companies, Auditors and Regulators strive for balance between quality financial reporting, managing the risk of material error and compliance costs.

Intel fully supports Management's accountability for maintaining effective internal control over financial reporting and is committed to the effective implementation of Section 404 of Sarbanes-Oxley ("S404"). We also recognize the positive benefits S404 has had in heightening controls awareness and improving the rigor of internal control procedures.

As a Large Accelerated Filer, Intel is in year three of S404 compliance and attestation. Year one was foundational and focused on interpreting and implementing the new rules and standards. During year two, process improvements and learning lead to a forty percent reduction in our compliance effort year over year. In year three we expect another ten percent reduction. Beyond year three, we expect only modest additional improvements within the context of the current guidance.

To promote further compliance improvement consistent with the protection of investors, it is important that additional guidance address the effective leverage of entity level controls and that AS2 is amended to provide increased flexibility to external auditors.

#### **Effective Leverage of Entity Level Controls:**

At Intel we believe we have a robust assessment process which has been heavily influenced by Auditing Standard #2 (AS2) and which closely follows guidance from the SEC. We have worked closely with our external auditors supporting both efficiency and compliance assurance. We appreciate the intent of both AS2 and the May 16<sup>th</sup> 2005 supplemental guidance in promoting a tops-down approach to internal control assessment. However, we believe that entity level controls and management monitoring practices are insufficiently leveraged in determining appropriate scope at the account and transactional level by both management and independent auditors. AS2 precludes reliance on entity level controls alone, but it is unclear to management the extent which

reliance can be leveraged, therefore reducing the overall amount of transaction level testing. For example, in an environment where the overall risk of material error is assessed as low, based on quantitative and qualitative factors, it would be reasonable to place increased reliance on entity level controls and monitoring practices with a rotational testing focus at the transaction level.

A prime candidate for increased guidance, as an example, is IT controls and related entity level controls. Intel's level of effort on General Controls is disproportionately high within the context of the overall compliance program (i.e. eighty percent of tests/testing are related to IT controls). IT controls are clearly an important area in totality as they have a pervasive effect across the financial statements. However, the risk of a material error from any individual control failure is remote; especially considering the nature of process based compensating checks and balances. It would likely take a pervasive issue at the entity level for a material deficiency to exist. Intel recommends that the focus be on entity level controls, combined with a rotational approach at the individual control level. We would welcome additional guidance that enables us to more effectively implement a risk based focus within IT.

### **Increased flexibility to external auditors**

The Auditor's role of overseeing Management's assessment processes is important and Intel does not suggest changing the model. However, with cumulative experience and an increasingly mature assessment processes, it is appropriate to allow increased flexibility in scoping auditor's attestation work. Recognizing that the PCAOB has reviewed these issues previously, Intel respectfully requests changes to AS2 as follows:

- **Allow Reliance on Cumulative Knowledge:** AS2 requires that "each years audit must stand on its own" with the auditor required to test controls every year, regardless of whether controls have obviously changed. This precludes the auditor from utilizing cumulative knowledge and professional judgment when establishing scope (e.g. considering rotational testing at the transaction level for low risk processes.) The accommodation of practices such as rotational testing allows the External Auditor to continue to perform appropriate due diligence, such as a walkthrough, commensurate with risk.
- **Remove the "principal evidence" requirement:** AS2 requires the auditor to rely on their own work as "Principal evidence" for their attestation conclusion. However the requirement creates a conservative posture that does not maximize reliance on the work of others, resulting in duplicative testing efforts and unnecessary operational burden.

It is important to align further Management guidance with AS2 and External Auditor practices. Without alignment, reduction in Management's effort is likely to increase External Auditor cost, eliminating the benefit of additional guidance. Guidance should continue to be principle- based and allow Management and Auditor's to exercise experience and judgment in compliance efforts.

Intel would like to reinforce full support of the letter and spirit of S404. S404 has contributed to the enhancement of internal control over financial reporting. We believe continued benefits can be realized, without compromising investor protection, through a more reasonable, cost-effective approach to compliance.

Thank you for consideration of our views. Please do not hesitate to contact me at (503) 696-7931 if you would like any further information in connection with our comments.

Sincerely,



James G. Campbell  
Vice President and Corporate Controller

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