Michael E. Keane
Vice President and Chief Financial Officer

September 18, 2006

Nancy M. Morris, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-9303

Re: File No. S7-11-06: Concept Release Concerning Management's Reports on Internal Control over Financial Reporting

FILED ELECTRONICALLY (rule-comments@sec.gov)

Dear Ms. Morris,

We appreciate the opportunity to submit our comments regarding the Securities and Exchange Commission's ("the SEC or Commission") "Concept Release Concerning Management's Reports on Internal Control over Financial Reporting," Subject File No. S7-11-06 (the "Concept Release").

We commend the Commission's decision to provide guidance to issuers regarding management's assessment process and to solicit broad-based input in formulating its guidance. We believe this is an opportunity to significantly improve the efficiency of management's assessment process and reduce compliance costs, provided the Commission's guidance streamlines rather than expands issuer assessment requirements. We also think it is important the Commission take a principles-based, rather than rules-based, approach so its guidance is flexible, scalable and readily applicable to all issuers.

Computer Sciences Corporation (CSC) has actively supported the efforts of the President, Congress, NYSE and SEC to enhance investor confidence, corporate governance, financial reporting and the capital markets. While management's representations and auditors' reports on internal control over financial reporting may help improve investor confidence, it is important to balance the cost with resulting benefits.

The excessive costs companies face in reporting on internal control over financial reporting are a matter of great importance to the U.S. economy, capital markets, investors and overall business climate. Costs, under the current approach are wholly disproportionate to the benefits, as U.S. public companies bear both the costs and distractions of unnecessarily burdensome rules. Obviously, the significant cost impact, when the objectives can be met for less, adversely affects the competitiveness of U.S. businesses and imposes a drag on our economy. Some companies have, in fact, de-listed their securities, delayed offerings, or turned to markets outside the U.S., particularly foreign corporations.

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The vast majority of both issuer and auditor effort and cost relates to the documentation, testing and evaluation of many lower risk process controls, despite the fact that these controls are least effective in addressing the issues which led to the types of financial improprieties witnessed at Enron, World Com, Tyco and others (i.e. fraud, improper financial reporting, conflicts of interest and management override of internal controls).

We remain confident the objectives of these regulatory requirements can be achieved at substantially lower cost, without diminishing the Act's effectiveness. Our responses to the Commission's Concept Release include a number of recommendations as set forth in Exhibit I. We think they offer compelling and pragmatic approaches which could dramatically lower compliance costs, while fully achieving the objectives of the legislation and without diminishing assurance provided to investors. Most are wholly consistent with the SEC and PCAOB May 2005 guidance and may assist issuers in more effectively implementing this guidance. Certain suggestions may require refinements to the SEC rule regarding 404, PCAOB Auditing Standard No. 2 and related implementation guidance.

Fundamentally, we recommend that Commission guidance allow greater flexibility in risk-based approaches to scoping, reliance on entity and company-level controls in place of process-level controls testing, and reliance on monitoring controls and management supervisory activities (discussed in greater detail in our responses to questions 9, 11, 15, 18 and 20 in Appendix I). In addition, it is critically important the Commission and PCAOB align issuer reporting requirements with any amendments to Audit Standard No. 2. Moreover, it is equally, if not more, critical the PCAOB Audit Standard No. 2 incorporate the changes we have recommended for management's assessment in order to realize substantial reductions in issuer compliance costs, as well as further efficiencies in external audit fees.

In view of the large and increasing costs and burden on our businesses and economy, it is important immediate action be taken to prevent the potential long-term erosion of U.S. capital markets and competitive position. It is critically important the SEC take this opportunity to ease this burden and significantly reduce compliance costs.

We thank you for the opportunity to express our views and offer our suggestions. We remain committed to working with the Commission, the PCAOB, other issuers, investors and others on refinements and improvements which will enhance the effectiveness and significantly reduce the cost of these reporting requirements. We would be pleased to discuss at your convenience our recommendations and any questions you may have.

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Sincerely,

Michael E. Keane
Vice President and Chief Financial Officer
Computer Sciences Corporation

cc:
The Honorable Christopher Cox, Chairman, Securities and Exchange Commission
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Kathleen L. Casey, Commissioner
The Honorable Annette L. Nazareth, Commissioner

Attachment

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Exhibit 1

Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting (the "Concept Release") Request for Comments

II. Introduction

1. Would additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting be useful? If so, would additional guidance be useful to all reporting companies subject to the 404 requirements or only to a sub-group of companies? What are the potential limitations to developing guidance that can be applied by most or all reporting companies subject to the 404 requirements?

   We believe additional guidance would be beneficial, provided it clarifies and streamlines issuer assessment requirements rather than expands them. We also recommend that Commission guidance allow greater flexibility in risk-based approaches to scoping, reliance on entity and company-level controls in place of process-level controls testing, and reliance on monitoring controls and management supervisory activities (as discussed in greater detail in our responses to questions 9, 11, 15, 18 and 20). Any additional guidance should employ a principles-based approach so it is flexible, scalable and uniformly applicable to all issuers. In addition, it is critically important the Commission and PCAOB align issuer reporting requirements with any amendments to Audit Standard No. 2. Moreover, it is equally, if not more, critical PCAOB Audit Standard No. 2 incorporate the changes we have recommended for management's assessment in order to realize substantial reductions in issuer compliance costs, as well as further efficiencies in external audit fees.

2. Are there special issues applicable to foreign private issuers that the Commission should consider in developing guidance to management on how to evaluate the effectiveness of the company's internal control over financial reporting? If so, what are these? Are considerations applicable to all foreign private issuers or only to a sub-group of these filers?

   We believe Commission guidance should be generally applicable to all issuers, including foreign private issuers.

3. Should additional guidance be limited to articulation of broad principles or should it be more detailed?

As indicated above, we strongly recommend the Commission adopt a principles-based approach in developing this guidance so it is flexible, scalable and applicable to all issuers.

4. Are there additional topics, beyond what is addressed in the Concept Release, that the Commission should consider issuing guidance on? If so, what are those topics?

   We would suggest Commission guidance also support the use of the "base lining" approach to testing IT application controls and the concept set forth in the COSO framework that even though controls are not documented they may nonetheless be highly effective.

   IT Application Controls
   The evaluation of IT application controls is an area in which significant efficiencies could be achieved. We were hopeful in year two we would be able to apply a "base lining" approach in testing IT application controls. This is a long established, widely accepted practice used in audits of service providers under Statement on Auditing Standards No. 70 ("SAS 70 audits"). Under this approach, if IT application controls have been previously tested (either in conjunction with the initial system implementation or as a part of a subsequent audit), it would only be necessary to test changes in subsequent periods, assuming the auditor has satisfactorily tested IT general controls (including program change controls). The PCAOB has issued guidance regarding criteria necessary to apply a "base lining" approach. These criteria require the issuer to demonstrate there have been no changes, not only in the IT application control itself, but also in the rest of the application, data files, tables, interfaces or related applications which could conceivably affect the IT application control. In most cases, satisfying these criteria would be far more arduous than retesting the controls. Moreover, we believe the PCAOB criteria are not only impractical but also unnecessary since program change controls are already subject to testing in conjunction with tests of IT general controls. Many issuers have initiated programs to further centralize, standardize and automate their processes and related controls in an effort to reduce the cost of compliance with 404. As these issuers further automate their systems of controls, modifying these criteria to permit more wide-spread use of a "base lining" approach would provide a powerful means of reducing the cost of compliance.

   Documentary Evidence of Controls
   The emerging requirements of independent auditors for documentary evidence of controls represents another area for potential improvement. Essentially, in the absence of documentary evidence, the audit profession has taken the position undocumented controls must be presumed to be ineffective. This is a significant 404 compliance issue for most companies and will continue to increase costs if reasonable standards are not adopted. For

example, the absence of supervisory sign-off on certain controls may be deemed a significant deficiency, even though the supervisory review had, in fact, been performed and, therefore, the control was operating effectively. In fact, the COSO framework explicitly recognizes controls may be quite effective despite the absence of documentary evidence (page 73):

> **Many controls are informal and undocumented, yet are regularly performed and highly effective. These controls may be tested in the same way documented controls are. The fact that controls are not documented does not mean that an internal control system is not effective or that it can not be evaluated.**

5. Would additional guidance in the format of a Commission rule be preferable to interpretive guidance? Why or why not?

   The guidance should be furnished in the form of a Commission rule to confer the necessary weight and authority for both issuers and auditors. We believe this approach would more likely result in desired streamlining of issuer assessment processes and reductions in compliance costs.

6. What types of evaluation approaches have managements of accelerated filers found most effective and efficient in assessing internal control over financial reporting? What approaches have not worked, and why?

   Leading practice issuers have generally followed a top-down, risk-based approach to scoping the assessment. Entity and company level controls and antifraud programs and controls generally have been documented for all business unit locations. Process and control documentation are typically prepared for processes affecting significant accounts for every business unit location. The scope of tests of operating effectiveness are generally based on achieving 70-85% coverage of selected financial line items (such as revenue, total assets and pre-tax earnings) for selected business units and account balances. Entity and company level controls, antifraud programs and controls and the period-end financial closing and reporting process are tested for business units not selected for detailed testing of process level controls. In future years, coverage ratios may be further reduced based on assessment of risks applicable to each business unit, provided each business unit location is subjected to testing once every three years.

7. Are there potential drawbacks to or other concerns about providing additional guidance that the Commission should consider? If so, what are they? How might those drawbacks or other concerns be best mitigated? Would more detailed Commission guidance hamper future efforts by others in this area?

   The Commission should be careful that this guidance does not expand issuer assessment requirements. These requirements should not be layered on top

of the indirect requirements of PCAOB Audit Standard No. 2 which were heretofore adopted by many companies for lack of more relevant guidance and, to some extent, at the insistence of their auditors.

8. Why have the majority of companies who have completed an assessment, domestic and foreign, selected the COSO framework rather than one of the other frameworks available, such as the Turnbull Report? Is it due to a lack of awareness, knowledge, training, pressure from auditors, or some other reason? Would companies benefit from the development of additional frameworks?

   In performing an assessment of controls, most companies adopted COSO because it is the most thoroughly developed, widely used and internationally recognized framework. In addition, issuers have used the COBIT framework (modified by ISACA and the Governance Institute to focus on 404 relevant objectives) in evaluating IT general controls. In view of the fact this is the prevailing framework used by most issuers, we do not think there would be any significant benefit by the development of additional frameworks.

9. Should guidance incorporate the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting"? Should any portions of the May 16, 2005 guidance be modified or eliminated? Are there additional topics that the guidance should address that were not addressed by that statement? For example, are there any topics in the staff's "Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports Frequently Asked Questions (revised October 6, 2004)" that should be incorporated into any guidance the Commission might issue?

   As suggested in previous comment letters to the Commission, we recommend the guidance incorporate the May 16, 2005 guidance. We also recommend certain areas of the guidance be further clarified in order to facilitate adoption of a true top-down, risk-based approach by issuers. Moreover, we recommend the PCAOB incorporate similar modifications into Audit Standard No. 2 to likewise facilitate adoption of a top-down, risk-based approach by auditors. These further modifications are discussed in response to questions 11, 15, 18 and 20 below:

   - **Determining scope of significant accounts, processes and controls**
   - **Reliance on company-level controls**
   - **Risk-based approach driving rotational testing of process controls**
   - **Increased use of monitoring controls**

10. We also seek input on the appropriate role of outside auditors in connection with the management assessment required by Section 404 (a) of Sarbanes-Oxley, and on the manner in which auditors provide the attestation required by Section 404

(b). Should possible alternatives to the current approach be considered and if so, what? Would these alternatives provide investors with similar benefits without the same level of cost? How would these alternatives work?

We recommend the auditor be required to form only two opinions, one on the financial statements and the other on the effectiveness of internal control over financial reporting. The auditors' opinion on management's assertion is redundant and does not provide further assurance for the investor. The opinion on the effectiveness of internal control over financial reporting provides the most conclusive assurance and is similar to the manner in which the auditor expresses his attestation on fair presentation of the registrant's financial statements. These two opinions should then be integrated into one published opinion (a reporting method which is currently permitted but not required). This approach would serve to further underscore the risk-based, integrated nature of these audits.

III. Risk and Control Identification

11. What guidance is needed to help management implement a "top-down, risk-based" approach to identifying risks to reliable financial reporting and the related internal controls?

    Perhaps the greatest point of leverage in reducing 404 compliance costs lies in the determination of the scope of significant accounts, processes and controls to be documented and tested as a part of the of an issuer's evaluation of its controls. Modifying the scope of management and auditor evaluation and extent of testing is perhaps the area driving the most significant cost reduction.

    The scope of management and auditor testing should be based on: (1) a materiality factor equal to 5% of earnings before tax (rather than lower thresholds of 2-2.5% which auditors had implemented to "allow for tolerable error"), (2) a risk-based assessment of account balances and related financial statement assertions and (3) assessment of the effectiveness of entity and company-level controls. As a practical matter, the types of "tolerable errors," so defined, generally are self correcting and non-cumulative, giving further support to the recommended materiality factors within assessed risks and controls.

12. Does existing guidance which has been used by management of accelerated filers provide sufficient information regarding the identification of controls that address the risks of material misstatement? Would additional guidance on identifying controls that address these risks be helpful?

    As indicated below in response to questions 15 and 18, we suggest the guidance endorse reliance on company-level controls, including period-end

financial closing and reporting procedures, in place of detailed process-level transaction controls. This would enable issuers to significantly streamline their assessment and reduce compliance costs without reducing the effectiveness of the assessment or diminishing the assurance provided to investors.

13. In light of the forthcoming COSO guidance for smaller public companies, what additional guidance is necessary on risk assessment or the identification of controls that address the risks?

    No comment regarding smaller companies.

14. In areas where companies identified significant start-up efforts in the first year (e.g., documentation of the design of controls and remediation of deficiencies) will the COSO guidance for smaller public companies adequately assist companies that have not yet complied with Section 404 to efficiently and effectively conduct a risk assessment and identify controls that address the risks? Are there areas that have not yet been addressed or need further emphasis?

    No comment regarding smaller companies.

15. What guidance is needed about the role of entity-level controls in evaluating and assessing the effectiveness of internal control over financial reporting? What specific entity-level control issues should be addressed (e.g., GAAP expertise, the role of the audit committee, using entity-level controls rather than low-level account and transaction controls)? Should these issues be addressed differently for larger companies and smaller companies?

    Commission guidance should underscore the importance of entity-level and company-level controls, antifraud programs and controls, including controls which address the risk of management override, and the pervasive impact and importance of the overall control environment. These were the control areas which resulted in most egregious instances of fraudulent financial reporting and malfeasance. Assessment of controls in these areas would be far more effective in preventing and deterring material misstatements and fraud than extensive testing of detailed low-risk process-level transaction controls.

    We recommend issuers rely on company-level controls and/or supervisory or monitoring controls in place of process-level transaction controls for moderate or low risk process areas. These process-level controls could then be subjected to testing on a rotational basis (e.g., once every three years).

16. Should guidance be given about the appropriateness of and extent to which quantitative and qualitative factors, such as the likelihood of an error, should be used when assessing risks and identifying controls for the entity? If so, what

factors should be addressed in the guidance? If so, how should that guidance reflect the special characteristics and needs of smaller public companies?

In assessing the risk of potential misstatements and determining the level of controls to be tested, as well as the extent of testing, we suggest management evaluate not only quantitative factors, such as financial significance, but also the qualitative factors such as the likelihood of errors, complexity (such as complex accounting requirements e.g., SFAS No. 133, SFAS No. 123R), subjectivity (such as sensitive estimates based on subjective assumptions and/or forecast information), errors or adjustments in the past, fraud risk factors and potential schemes and industry financial accounting and reporting issues.

17. Should the Commission provide management with guidance about fraud controls? If so, what type of guidance? Is there existing private sector guidance that companies have found useful in this area? For example, have companies found the 2002 guidance issued by the AICPA Fraud Task Force entitled "Management Antifraud Programs and Controls" useful in assessing these risks and controls?

    We do not believe further guidance is necessary in this area. In addition to the AICPA Fraud Task Force guidance referred to above, public accounting firms have published extensive reference materials regarding approach and methods for addressing fraud risk assessment, risk factors, potential fraud schemes and controls designed to prevent and detect fraud. Identified fraud risks are then mapped to controls which have otherwise been subjected to testing as a part of the overall program tests of entity, company and process level controls, or additional controls are identified and subjected to testing so that all identified risks have been addressed.

    In addition, the AICPA Fraud Task Force has also published guidance regarding "Management Override of Internal Controls: The Achilles' Heel of Fraud Prevention" which is useful in identifying controls to address the risk of management override.

18. Should guidance be issued to help companies with multiple locations or business units to understand how those affect their risk assessment and control identification activities? How are companies currently determining which locations or units to test?

    In determining scope, all significant business unit locations and account balances should be considered. However, where business unit locations and account balances are determined to have medium or low risk, reliance may be placed on documented entity and company-level controls, rather than detailed process level transaction controls, provided such entity and company level controls are effective.

- **To achieve testing of all significant process level transaction controls over multiple years, process controls for medium and low risk business unit locations and account balances would be subject to evaluation on a rotation basis (e.g., once every three years).**

- **Walkthrough procedures would be performed for the account balances and related classes of transactions which are subject to review of process controls in any given year (as set forth in the rotation plan).**

- **In addition, issuers should be able to rely on supervisory activities. Most large issuers have multiple layers of review to determine controls are operating effectively and financial reporting is accurate and complete.**

During the course of the Roundtable discussion, the Comptroller General of the United States indicated a risk based audit approach has been in use in Government Accountability Office audits of Federal government agencies for some time. The risk based approach is used in tandem with a multi-year rotation plan to determine all areas are subject to audit testing over a multi-year time frame. The approach described above parallels the risk based rotation approach employed by the GAO. Second, in determining scope, all significant business unit locations and account balances would be considered. However, where business unit locations and account balances are determined to have medium or low risk, reliance may be placed on documented entity and company level controls, rather than detailed process level transaction controls, provided such entity and company level controls are effective.

IV. Management's Evaluation

19. What type of guidance would help explain how entity-level controls can reduce or eliminate the need for testing at the individual account or transaction level? If applicable, please provide specific examples of entity-level controls that have been useful in reducing testing elsewhere.

    Issuers should be able to rely on entity and company-level controls and curtail process-level control testing where processes are determined to be moderate or low risk and entity and company-level controls are sufficiently precise to prevent or detect material misstatements in the financial statements.

20. Would guidance on how management's assessment could be based on evidence other than that derived from separate evaluation-type testing of controls, such as ongoing monitoring activities, be useful? What are some of the sources of evidence that companies find most useful in ongoing monitoring of control effectiveness? Would guidance be useful about how management's daily interaction with controls can be used to support its effectiveness?

It would be helpful if the guidance unambiguously endorsed issuer monitoring controls in place of separate evaluation type testing of controls. Monitoring activities could include a wide assortment of activities, ranging from process owner control self assessment testing of controls themselves to detailed review of the results of operations in combination with testing of controls over the period-end financial closing and reporting process. Such activities might also include management's operating procedures and supervisory activities, especially in areas where measurements require greater judgment and have potentially greater impact on performance and reported results.

In addition, commercial software packages have been developed which enable issuers to monitor user and security access privileges to applications, operating system security configurations and certain other IT general controls, segregation of duties and ongoing monitoring of application and transaction controls, as well as automating system and application user provisioning. The capabilities of these monitoring tools is evolving rapidly and will likely enable far greater automation not only of the issuer assessment process but of the underlying system of controls as well. These types of monitoring tools potentially improve the effectiveness of the system of controls, provide a more robust foundation for issuer reporting on controls, significantly reduce compliance costs and deliver operational benefits.

21. What considerations are appropriate to ensure that the guidance is responsive to the special characteristics of entity-level controls and management at smaller public companies? What type of guidance would be useful to small public companies with regard to those areas?

    No comment regarding smaller companies.

22. In situations where management determines that separate evaluation-type testing is necessary, what type of additional guidance to assist management in varying the nature and extent of the evaluation procedures supporting its assessment would be helpful? Would guidance be helpful on how risk, materiality, attributes of the controls themselves, and other factors play a role in the judgments about when to use separate evaluations versus relying on ongoing monitoring activities?

    We recommend Commission guidance incorporate the guidance set forth in PCAOB Audit Standard No. 2 regarding the nature, timing and extent of tests, including factors such as financial significance, risk (complexity, subjectivity of judgments and estimates, nature of transactions – routine versus unusual and non-recurring), attributes of controls (automated versus manual) and the nature of testing performed. However, such guidance should allow greater flexibility in relying on entity and company-level

controls, as well as monitoring controls, in place of process-level controls testing. Guidance endorsing reliance on entity-level controls testing or the use of monitoring controls in place of separate evaluations of detailed process-level controls could result in a significant reduction in compliance costs.

23. Would guidance be useful on the timing of management testing of controls and the need to update evidence and conclusions from prior testing to the assessment "as of" date?

    Generally, we recommend the Commission incorporate guidance regarding roll forward procedures set forth in PCAOB Audit Standard No. 2. These principles are widely understood by the issuer and auditor communities and generally result in an efficient and effective assessment.

24. What type of guidance would be appropriate regarding the evaluation of identified internal control deficiencies? Are there particular issues in evaluating deficient controls that have only an indirect relationship to a specific financial statement account or disclosure? If so, what are some of the key considerations currently being used when evaluating the control deficiency?

    First, as indicated in response to question 25 below we recommend the Commission revisit the definitions of "material weakness" and significant deficiency". We also recommend that issuers be encouraged to apply commercially reasonable standards in evaluating remediation of deficiencies and significant deficiencies.

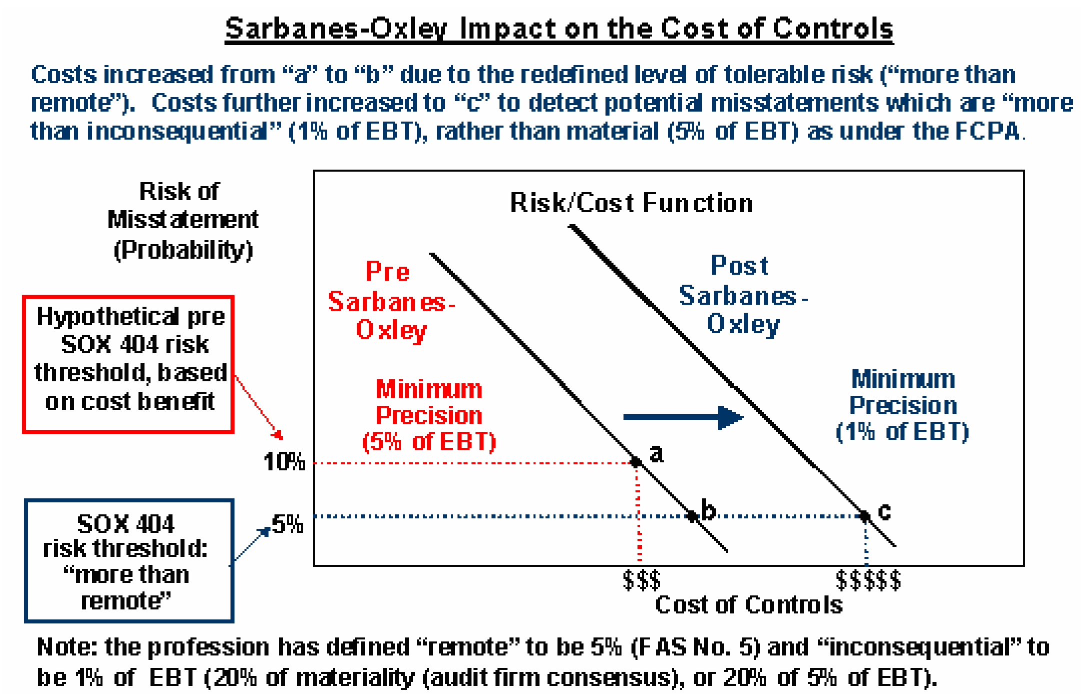
25. Would guidance be helpful regarding the definition of the terms "material weakness" and significant deficiency? If so, please explain any issues that should be addressed in the guidance?

    We suggest the Commission modify the definitions of material weakness and significant deficiency to focus on truly material or significant matters, respectively, and matters which are at least reasonably possible, if not likely, rather than nearly remote.

    The PCAOB standards establish reporting requirements for material weaknesses and significant deficiencies. They effectively require companies to remediate any and all significant deficiencies, using low thresholds involving more than a "remote" probability of a more than "inconsequential" misstatement. This makes it difficult to distinguish more significant deficiencies from matters of far less importance. Moreover, the definition encompasses potential control deficiencies and misstatements which although possible are, in fact, neither likely nor significant.

As a result of the overly broad definition of significant deficiencies, the cost of implementing, maintaining, monitoring, evaluating and reporting on internal controls has fundamentally increased in two ways. First, Section 404 has brought about a material adverse shift in the financial reporting cost-benefit relationship by essentially requiring companies to detect misstatements in excess of "inconsequential amounts" rather than material amounts. The audit profession has defined "inconsequential" to be 20% of materiality, or 20% of 5% of EBT (1% of EBT). Second, the risk threshold encompasses any control deficiencies where potential misstatements are more likely than "remote". Under FAS No. 5, "Accounting for Contingencies," remote had been defined by the profession as a probability greater than 5%.

The following chart, from our letter dated April 28, 2006, illustrates the impact of this definition on the cost of controls:



26. Would guidance be useful on factors that management should consider in determining whether 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 a part of the close process? If so, please explain.

Clarification of factors to consider in determining whether correction of a financial statement error results in a material weakness would be beneficial. Generally, we believe that financial statement adjustments or corrections that relate to differences in judgment do not necessarily constitute a material weakness unless there is a deficiency in the controls over the process. We

also believe that consultation with the issuer's audit firm regarding the application of generally accepted accounting principles to complex transactions which require interpretation may not necessarily constitute a material weakness, where the issuer has the requisite processes, controls and personnel and such consultation is just part of the issuer's process.

27. Would guidance be useful in 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?

    Clarification of circumstances under which a restatement would not result in a material weakness would be beneficial. Generally, we believe a material weakness exists where a control deficiency results in a restatement. However, there may also be situations where the restatement is the result of evolving financial accounting and reporting practices and related interpretations. In addition, there may be situations where a control deficiency existed in prior years but has been remediated and no further action is necessary beyond the restatement (similar to the rationale discussed in response to question 26).

28. How have companies been able to use technology to gain efficiency in evaluating the effectiveness of internal controls (e.g., by automating the effectiveness testing of automated controls or through benchmarking strategies)?

    Leading practice issuers are expanding the use of technology to increase efficiency and improve the effectiveness of the assessment process in a number of ways, including:

    - **SOX data repository and assessment software packages, including packages which incorporate work flow, normative control models and COSO methodologies (such as products by OpenPages, Paisley Consulting, Handysoft, Stellent, IBM, SAP, Peoplesoft and Oracle)**
    - **Software packages which automate testing of user access and security privileges (such as products by Approva and SAP Virsa), as well as the underlying process for user provisioning for applications and systems**
    - **Software packages which automate ongoing monitoring of process, application and IT general controls (such as products by Approva, SAP Virsa and Oversight Systems)**

    To facilitate transparency and disclosure, certain issuers have consolidated IT infrastructure into larger better controlled data centers and migrated to common application platforms and integrated systems. They have also accelerated their transition to shared service operations, centralizing high volume transaction processing. Some issuers are also expanding the use of work flow and integration of their ERP and other systems to transition from

manual to automated controls. This process could take several years due to the level of investment required. By further automating these processes, these issuers will be able to likewise automate related controls, particularly controls over high volume, routine transaction processes.

As indicated in our response to question 4, issuers have had difficulty in fully leveraging the use of benchmarking for IT application controls due to the stringent criteria established by the PCAOB (refer to our response to question 4).

29. Is guidance needed to help companies determine which IT general controls should be tested? How are companies determining which IT general controls impact IT application controls directly related to the preparation of financial statements?

    Generally, companies identify significant account balances for each business unit and the processes which affect these accounts. Applications which support these processes are likewise included in the scope of the issuer's assessment. IT general controls which govern the systems environment over the in-scope applications are similarly included in the scope of the assessment.

    However, there is substantial diversity in practice as to the types of IT general controls which must be evaluated. The range of controls encompassed in the COBIT framework (modified by ISACA and the Governance Institute to focus on 404 relevant objectives) is substantially more expansive than merely program change controls and security and access controls, although these are acknowledged to be the most fundamental. Streamlining the scope and nature of IT general controls which must be tested would provide significant efficiencies.

30. Has management generally been using proprietary IT frameworks as a guide in conducting the IT portion of their assessments? If so, which frameworks? Which components of those frameworks have been particularly useful? Which components of those frameworks go beyond the objectives of reliable financial reporting?

    Refer to the response to question 29.

V. Documents to Support the Assessment

31. Were the levels of documentation performed by management in the initial years of completing the assessment beyond what was needed to identify controls for testing? If so, why (e.g., business reasons, auditor required, or unsure about key controls)? Would specific guidance help companies avoid this issue in the future? If so, what factors should be considered?

In the initial year of implementation the most significant documentation issues arose from the following combination of factors:

- **Initial start-up necessary to create the base line process and controls documentation, including flow charts and narratives, identifying risks (or control objectives) and controls which mitigate these risks (or satisfy the control objective)**
- **Rework of documentation necessary due to the learning curve across the enterprise (documentation rework frequently required personnel with audit skills) and as a result of evolving requirements and changes in the approach and methods employed by external auditors**
- **Rework of IT general controls documentation due to subject matter expertise required (generally required Certified Information Systems Auditors (CISA's)**
- **Documentation (and testing) of redundant controls**

In year two, controls were streamlined by most issuers to eliminate redundant controls and focus wherever possible on automated controls. This resulted in significant efficiencies in testing and to a lesser extent streamlined documentation.

32. What guidance is needed about the form, nature and extent of documentation that management must maintain as evidence of its assessment of risks to financial reporting and control identification? Are there factors to consider in making judgments about the nature and extent of documentation (e.g., entity factors, process, or account complexity factors)? If so, what are they?

    For process controls, we believe documentation should be sufficient to support the risk assessment, identification of key controls, testing of controls (with sufficient information necessary to re-perform such testing), and evaluation of segregation of duties. Documentation may be stored in data repository software which incorporates process flow charts, narratives and testing. In addition, entity-level controls, antifraud programs and controls, IT general controls and segregation of duties must be documented for each principal business unit.

    Quarterly questionnaires are generally completed to identify any significant changes in internal control over financial reporting for Section 302 disclosure and testing purposes. In addition, quarterly tests of disclosure controls and procedures are performed and documented. Control self assessment testing may be performed at the business unit level for high risk controls.

33. What guidance is needed about the extent of documentation that management must maintain about its evaluation procedures that support its annual assessment of internal control over financial reporting?

Refer to our response to question 32.

34. Is guidance needed about documentation for information technology controls? If so, is guidance needed for both documentation of the controls and documentation of the testing for the assessment?

    Refer to our response to question 32.

35. How might guidance be helpful in addressing the flexibility and cost containment needs of smaller public companies? What guidance is appropriate for smaller public companies with regard to documentation?

    No comment regarding smaller companies.