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**September 16, 2006**

**United States Securities and Exchange Commission**
**Division of Corporation Finance**
**100 F Street NE**
**Washington, DC 20549-1090**
**Attention: Nancy N. Morris, Secretary**

**Re: File Number S7-11-06**

**Dear Ms. Morris:**

Thank you for the opportunity to respond to the Concept Release and provide our input. The question numbers in the responses below correspond to those in the release.

**Question 1**

*Would additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting be useful?*

**Response**

Additional guidance to management, including specific practical examples, would be particularly useful with respect to:

- the use of entity-level and monitoring controls to reduce or eliminate testing of controls at the transaction level, and
- the evaluation and aggregation of control deficiencies.

**Questions 3 and 5**

*Should additional guidance be limited to the articulation of broad principles or should it be more detailed? Would additional guidance in the format of a Commission rule be preferable to interpretive guidance?*

**Response**

We believe that any guidance should include examples that will provide more clarification than general rules, which can be vague and open to interpretation.

**Question 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?*

**Response**

We use a top-down approach beginning with the identification of significant accounts and leading to the identification of key controls for each relevant assertion.

We were unable to determine how to effectively use our monitoring and entity-level controls to meaningfully reduce detailed testing of individual controls at the transaction level. It would be useful to see examples where monitoring and entity-level controls could be tested as the primary controls, instead of those at the transaction level, and to understand how these monitoring and entity-level controls could be mapped to relevant assertions.

**Question 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?*

**Response**

We used the COSO framework because we were familiar with it, it is widely accepted, and additional information was readily available.

**Question 9**

*Should the guidance incorporate the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting"?*

**Response**

Any relevant sections from prior guidance should be combined and codified in one document with related new guidance to make it easier to use. We find supplemental examples of the application of the guidance to be the most useful aspect of the guidance.

**Question 10**

*We are also seeking 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 outside 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?*

**Response**

We believe the auditors' involvement should be limited to a review of management's assessment and that their separate internal control review is largely redundant. The auditors' review would include a review of management's documentation, test plan, and the results of its testing but would not include separate testing or reperformance of management's testing, unless required to support the auditor's opinion on the financial statements.

**Question 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?*

**Response**

As stated in our response to Question 6 above, it would be useful to see examples where monitoring or entity-level controls could be used as the primary controls in place of individual controls at the transaction level.

We believe that the risk of material financial statement errors for many companies is generally concentrated in specific complex areas, and not in the processing of routine transactions. We would like to better understand if management's assessment of risk could be used to eliminate certain routine areas from management's review and assessment. For example, routine payroll costs are material to most companies but may not be an area where management believes there is a significant risk We would like to see guidance as to whether controls around routine processes could perhaps be reviewed and assessed on a rotational basis and not every year, or whether high-level monitoring controls (such as a fluctuation analysis of payroll costs) could replace the transaction testing performed to cover the relevant assertions.

**Question 12**

*Does the 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?*

**Response**

We have not had difficulty identifying controls that address the assertions related to material accounts or processes, but we have had difficulty determining if we can eliminate certain material accounts or processes altogether based on our assessment of the level of risk.

**Question 15**

*What guidance is needed about the role of entity-level controls in evaluating and assessing the effectiveness of internal control over financial reporting?*

**Response**

See our responses to Question 6 and Question 11 above regarding guidance around entity-level controls.

**Question 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?*

**Response**

The focus on reviewing all individually significant locations every year, and setting minimum coverage levels of 60-70% of total revenues and assets, can lead to a company spending the majority of its resources testing the same locations and processes year after year.

We believe individually significant locations, or at least certain processes within those locations, should not be required to be tested each year. Management should be able to use its judgment to rotate locations and obtain better coverage over a period of years, instead of being concerned with minimum coverage requirements in each year.

**Question 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?*

**Response**

See our response to Question 6 above.

**Question 20**

*Would 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, be useful? What are some of the sources of evidence that companies find most useful in ongoing monitoring of control effectiveness?*

We test monitoring controls (such as the monthly review of operating results versus budgets and prior year, the preparation of variance analyses, and management meetings to review results and projections) but have not used these tests to directly reduce testing of controls at the transaction level. We would like to see examples of how this can be done.

We would also like to understand, in those cases where a higher level monitoring control is used as the primary control, if a company is required to estimate the level at which errors would not be detected, and quantify a "deficiency" for assumed errors below that level.

**Question 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 "as of" assessment date?*

**Response**

For those controls we consider the most significant, our approach has been to perform a portion of our testing in the fourth quarter of each year. For less significant controls our test sample may not include a portion of the fourth quarter. In all cases we inquire of the process owners whether there have been any changes in the control design or operation since the end of our testing. We would like to understand the Commission's views on a reasonable approach.

**Question 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?*

**Response**

It can be difficult to apply a dollar amount to a control deficiency since we are testing a control and not a financial statement amount. The failure of the same control in different instances will likely not lead to estimated misstatements of the same dollar amount if the quantification is based on a projection of the amount involved in the deficiency.

Guidance concerning the aggregation of deficiencies would be useful. Specifically:

- When aggregating, is it necessary to assume that all deficiencies will occur at the same time, that they will result in financial statement errors and that all of the misstatements will be in the same direction?
- A company could have the same dollar amount of aggregated deficiencies in two consecutive years but arrive at a different conclusion (insignificant, significant deficiency, material weakness) based on a different amount of pre-tax income in each year. The accepted method of applying a percentage to a measure such as pre-tax income is too simplistic and additional guidance is needed.
- Guidance related to aggregating deficiencies arising from entity-level controls with those arising from transaction level controls would be useful.
- How should deficiencies related to human error in the performance of a control be treated?

**Question 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 believe the definitions are understood but please refer to our response to Question 24 for areas where additional guidance is needed.

Thomas A. Kelly
Vice President Corporate Controller
Crown Holdings, Inc.