

September 19, 2006

Nancy M. Morris, Secretary
Securities & Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Reference: File Number S7-11-06

Dear Ms. Morris,

E. I. DuPont de Nemours and Company, Inc. (DuPont), a major U.S. corporation, appreciates the opportunity to provide its views on the U.S. Securities and Exchange Commission's ("Commission") *Concept Release Concerning Management's Reports on Internal Control over Financial Reporting*.

We have long supported the position that effective internal controls are vital to the integrity of the financial reporting process and we believe the Sarbanes-Oxley Act of 2002 ("the Act") has contributed to a strengthening in the financial reporting and disclosure practices of larger companies. However, we also believe there is additional opportunity for improvements in compliance practices that will better balance benefits and costs, while still achieving the legislative intent of the Act.

DuPont endorses the issuance of additional guidance regarding management's annual internal control assessment process, and believes such guidance would be helpful and useful to all companies. We fully support Commission's stated view that any additional guidance must be sensitive to the existing processes already established by many companies and should continue to encourage management to exercise its own experience and judgment in designing its assessment processes.

The Commission has indicated that it anticipates new guidance would be issued in the form of a Commission rule and that AS2 would be amended by the PCAOB to be consistent with this rule. DuPont would prefer interpretive guidance, rather than a rule. This is largely driven by our desire to have the new guidance available as soon as practicable, ideally no later than the December/January timeframe, to enable us to reflect changes in our planning processes for 2007. In either case (interpretive guidance or in

the form of a Commission rule), we support a principles-based approach which allows flexibility and minimizes the potential for requiring change or rework to existing processes. The goal in all cases is to provide guidance that focuses on practical ways to reasonably simplify management's assessment process and the related audit. As the Commission's May 16, 2005 guidance did, the final guidance should be flexible and emphasize the use of management judgment in implementing Section 404.

We strongly believe that to be truly effective, changes to AS2 must be made concurrently and consistently with guidance issued by the Commission in order to operationalize the desired changes. Any inconsistencies in the final guidance and AS2 would likely increase costs and introduce new inefficiencies.

Risk and Control Identification

We would welcome additional guidance or examples regarding the design of an appropriate top-down, risk-based approach to identify key risks for material financial statement misstatements. A more holistic approach, which allows greater reliance on entity level and compensating controls and a more practical definition of materiality would help management consistently identify and assess key risk areas. Furthermore, auditors need additional guidance/comfort that such a reasoned, risk-based assessment, supported by monitoring and entity-wide controls and limited testing, is an acceptable process for management's assessment as well as for the auditor's internal control assessment and opinion.

Without additional guidance (and related revisions to AS2), DuPont does not believe a significant reduction in the scope of coverage or number of controls being assessed can be achieved, and accordingly, at best only modest reductions in the overall cost of compliance would be possible. In particular, we believe additional Commission guidance for management with concurrent changes to AS2 as summarized below would be most helpful:

- *Reliance on Entity-Level Controls* – Improved clarity on the ability to rely on entity-level controls in lieu of activity-based testing. Provide guidance or examples of entity-level controls and appropriate testing to evidence they are operating effectively. Examples or situations where strong entity-level controls could significantly reduce testing at the activity level would be particularly useful. Today, entity-level controls often tend to be viewed by auditors as supplemental to transactional testing.
- *Scope of Audit Coverage* – Although the May 2005 PCAOB guidance encouraged use of a risk-based top-down approach to determine scope, absent any definitive guidance from either the SEC or PCAOB, we have been following our external auditor's guidance for minimum scope coverage of 70-80%. We believe scope should be based on experience and risk, not a predetermined level of coverage.

Generally lower-risk areas or accounts are being audited every year often to the exclusion of smaller entities with less established control processes. We suggest AS2 clarify that financial statement coverage ratios should be based on risk, after consideration of entity level controls and may vary by company and financial statement element. To improve efficiency and effectiveness, we believe AS2 must be amended to clearly articulate that a risk-based approach with heavy reliance on qualitative rather than quantitative factors meets the requirements of AS2.

- *Reliance on Cumulative Knowledge* – AS2 currently requires each year’s audit to “stand on its own” and does not permit the auditor to rely on cumulative knowledge. Rotational testing should be permitted for low risk areas even where changes have occurred, assuming appropriate change control procedures have been followed. We recommend new guidance that allows management the flexibility to utilize judgment in determining what is an appropriate level of testing on an annual basis for lower risk areas. In some areas this determination may lead to no testing in one year (beyond confirmation of change control procedures), or alternatively, limited assurance through a walkthrough.
- *Risk-based Testing of IT Controls* – IT general controls (and automated controls) currently require significant testing and documentation even though experience has shown they do not pose significant financial statement risk. Deficiencies in IT controls, for example, systems access controls, generally are mitigated by other compensating controls. In addition, since COSO does not provide any specific guidance in this area, the degree of needed testing is open to interpretation.

We believe costs for testing IT controls (both general and automated) can be significantly reduced without adding incremental risk. If IT automated controls are determined not to be key controls, then testing for these or the related general IT controls should not be required. Testing for general IT controls should be determined based on experience and risk. Accordingly, we recommend additional guidance that allows management and auditors the flexibility to limit the scope of IT control testing based on cumulative knowledge and assessed risk. Such guidance could also include use of an IT risk based assessment.

Management’s Evaluation

As noted above, we agree that additional guidance for management’s evaluation process (and related revisions to AS2) that focuses on key risks and relies more heavily on entity-level controls would be helpful. Additional examples on how management’s process could be largely based on entity-level controls, compensating controls, and monitoring activities, rather than a separate, transactional-based point in time evaluation process would be particularly helpful. The SEC has stated that management might determine that monitoring of the operation of controls could be accomplished through regular

management and supervisory activities, monitoring adherence to policies and procedures and other actions. Guidance regarding what types of monitoring activities would be viewed as effective and what evidence would be required to support these monitoring activities would be useful. Finally, we believe roll-forward procedures should be simplified. Management and auditors should have the flexibility to determine if roll forwards are necessary.

As noted above, unless consistent changes are concurrently reflected in AS2, issuing additional new guidance will in all likelihood not achieve the desired scalability and cost reduction and will be in conflict with the auditors' evaluation process.

Recommended Changes to AS2

Our recommendations for key AS2 changes are summarized below. Many of these have been referred to earlier in this letter:

- Amend the language in AS2 to reflect the 2005 PCAOB guidance as well as any new guidance issued by the Commission.
- Revise the definitions of material weaknesses and significant deficiencies. Current definitions and framework set standards that are too low from a materiality perspective particularly with the inclusion of interim financial statements. This, in turn, forces companies and auditors into overly detailed reviews of low-level control processes.

We recommend that these definitions be amended to (1) allow for a higher, more practical, probability threshold and (2) follow more traditional materiality definitions and be based on annual rather than quarterly financial data. In addition, for potential material weaknesses, we believe qualitative factors must also be carefully considered and should play an important role in assessing materiality.

- We believe that only Significant Deficiencies and Material Weaknesses need to be tracked and addressed as opposed to today's practice of identifying, aggregating and correcting minor deficiencies that never could rise to the level of a Significant Deficiency or Material Weakness.
- Provide for greater reliance on entity-level and compensating controls. This would encourage a more holistic view of the overall control environment and allow for a more balanced assessment process.
- Allow for greater reliance on the work of others. We agree high-risk areas should continue to require independent auditor testing, but recommend that the PCAOB amend AS2 to allow self-assessments in lower risk areas with objective and competent oversight and periodic quality control testing to be considered an

acceptable testing approach that provides a balance of risk and efficiency. The current “principal evidence” requirement in AS2 should be dropped.

- Provide for reliance on cumulative knowledge including a risk-based approach to scoping. We recommend the PCAOB modify AS2 to allow for benchmarking of controls beyond IT, emphasize entity-level controls to vary the nature, timing and extent of lower-level control testing. We believe that, for scoping and assessment purposes, materiality should be based on annual, not interim, financial statement materiality.

Documentation to Support the Assessment

We agree with the feedback the Commission has received regarding documentation. It was very burdensome in the initial year of compliance, both as a result of too many key controls being identified and auditor requirements, the latter in part driven by their desire for detailed flowcharts and narratives to assist them in conducting required process walkthroughs. Ongoing maintenance of documentation in year two was less burdensome than in year one. We believe the most practical approach to reduce the documentation burden is to move forward with new management guidance and revisions to AS2 that are more risk focused with greater reliance on entity-level and monitoring controls, and revised materiality definitions allowing for higher thresholds. This should significantly reduce the numbers of key processes and controls requiring documentation and should be scalable for both large and small companies. In addition, guidance and examples that would help management and auditors better define what is “sufficient” would also be useful.

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Thank you for considering our views. We would be happy to discuss our comments and recommendations at your convenience.

Sincerely,

Daniel B. Smith, Vice President and Controller
E.I.DuPont de Nemours and Company, Inc.

