Peter J. Daniel

Senior Vice President
& Controller

September 18, 2006

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

Re: Concept Release – Request for Comment (File No. S7-11-06)

Dear Ms. Morris,

Ford Motor Company is pleased to respond to the above-referenced release regarding the Commission's efforts to provide practical guidance for companies in order to improve implementation of Sarbanes-Oxley Section 404. We have comments in regard to five of the questions included in the release: 1) use of entity-level controls in testing to reduce transaction-level testing, 2) reliance on evidence based on ongoing monitoring of controls rather than separate evaluation-type testing, 3) timing of management testing and the need to perform update testing, 4) definition of the terms "significant deficiency" and "material weakness", and 5) situations where a restatement would not lead to a conclusion of a material weakness.

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? If applicable, please provide specific examples of types of entity-level controls that have been useful in reducing testing elsewhere.

We believe that guidance on entity-level controls should identify the types of entity-level controls appropriate to reduce testing at the individual account or transaction level. This should include the scope of entity-level controls, how often they should be performed and what the relationship of entity-level controls must be to the transaction-level controls. This guidance should provide examples of entity-level controls and specify the testing requirements for those controls.

In our opinion, examples of entity-level controls that have been important in establishing effective control include a consistent "tone at the top" regarding the importance of effective controls, regular management reviews of audit and control issues at both the corporate level and at the business group level, the establishment of processes to effectively manage changes to business processes and applications, and an increased emphasis on financial skills training for employees whose job responsibilities impact the financial statements.

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? Would guidance be useful about how management's daily interaction with controls can be used to support its assessment?

We believe that guidance in this area would be useful. The guidance should include a definition of acceptable on-going monitoring activities and the frequency and nature of management interaction with those activities. This would facilitate the identification of existing monitoring activities that are acceptable, as well as allow for the development of new tools and processes that would be more efficient than evaluation-type testing.

Based on our experience, the sources of evidence that we find useful in monitoring controls include elements of both analysis and governance. In the analysis area, we utilize variance analyses such as comparisons of actual to forecast results and period-to-period comparisons of account balances. The use of ratios, comparing key reserves and accruals to operating data such as volume and/or revenue, and periodic reviews of balance sheet accounts are also helpful as analytical monitoring tools. In the governance area, the regular review of key control metrics such as the percentage of internal audits with no comments, the types and number of comments being identified by internal audit and by operations and management testing, and the amount of time required to resolve control deficiencies allow management to prioritize both resource utilization and specific control initiatives.

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 assessment "as of" date?

Yes, such guidance would be useful. Specifically, guidance is needed regarding the appropriate timing of update testing relative to both the date that testing of a control was performed earlier in the year and to the assessment "as of" date. In addition, guidance regarding the timing of the occurrence of the data used to perform update testing would be helpful.

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?

Yes, additional guidance is needed with respect to defining "material weakness" and "significant deficiency", particularly in circumstances where a company has low or near breakeven pre-tax results. Guidance also should be provided on quantitative thresholds for a "material weakness" and "significant deficiency" for control deficiencies that affect only balance sheet classification and the cash flow statement. Also, the concept of evaluating potential risk for quantified financial statement errors that resulted from a control deficiency should be clarified.

The presently accepted quantitative thresholds for a "material weakness" and a "significant deficiency" for an income statement misstatement are based on percentages of pre-tax profits. In periods of low or breakeven pre-tax results, these percentages would result in very low thresholds that should not represent a "significant deficiency" or a "material weakness" when other factors such as the size and complexity of a company are considered. Consideration, therefore, should be given to establishing alternative quantitative thresholds during these periods. These alternative thresholds could be based on the concept of a fixed minimum quantitative threshold or a less volatile financial "basis" then pre-tax results such as revenue.

Apart from the issue raised in the preceding paragraph, the recommended quantitative thresholds for assessing deficiencies in control-related income statement items have been very helpful. We are not, however, aware of any recommended quantitative thresholds for deficiencies in controls related to balance sheet or cash flow statement classifications. Just as the quantitative thresholds for income statement related controls have been helpful, we believe such thresholds would provide more uniform and objective standards applicable to all companies.

Additionally, the concept of attempting to quantify the maximum probable risk of a control deficiency beyond the quantitative amount actually determined to have resulted from that deficiency should be clarified. Deficiencies in controls that result in financial statement errors are identified by management through the operation of a variety of different controls. The financial effect of control deficiencies may not be identified by higher-level controls until it has reached an amount, often over time, which the control is designed to identify. Where a control has identified a financial error that has existed for some time and the amount of the issue has increased to the level that the control identified it, we believe that the actual amount of the error is the amount that should be considered as the potential risk. Engaging in a conceptual discussion of how large the financial error could have been if the control had not detected the error should not be necessary because the company's controls identified the error.

The evaluation of potential risk, however, is appropriate if a control deficiency is identified without a financial statement error actually occurring, or if the error is identified by an outside party such as the external auditor.

<u>Question 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 material weakness exists in the company's internal control over financial reporting?</u>

Yes, guidance on when a restatement of financial information would not be considered a material weakness would be useful. Specific examples of situations where a restatement would not result in a material weakness should be provided. For example, would a material weakness exist when a company has to restate previously reported financial information because it has interpreted a complex accounting policy incorrectly, and its external auditor had not previously identified an issue with that incorrect accounting policy?

We appreciate the opportunity to provide our comments on this matter and should you have any questions, please feel free to contact me by telephone at 313-845-7938.

Best Regards,

Peter J. Daniel
Senior Vice President
& Controller