AEROSPACE INDUSTRIES ASSOCIATION

The Honorable John W. Douglass
President and Chief Executive Officer

September 14, 2006

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

Subject: AIA Response to SEC Questions

Reference: File Number S7-11-06, Concept Release Concerning Management's Reports on Internal Control over Financial Reporting; Proposed Rule

Dear Ms. Morris,

The Aerospace Industries Association (AIA) appreciates the opportunity to respond to the referenced request for comments on the provision of additional guidance to management of public companies that are subject to the Commission's rules related to management's assessment of internal control over financial reporting. I hope our answers to questions posed in the July 18, 2006, Federal Register issuance (see attachment) will assist the Commission in developing guidance that addresses the needs and concerns of all public companies in complying with Section 404 requirements of the Sarbanes Oxley Act of 2002.

Since the 2002 enactment date, our members have taken steps to fully comply with the requirements of the Act, improved our management assessment policies and procedures, and interacted effectively with external auditors and regulatory authorities to resolve compliance issues. However, we would welcome additional guidance that may streamline the processes by which we achieve the intended goals of the Act. In that regard, the guidance in the Staff Statement on Management's Report on Internal Control Over Financial Reporting (May 16, 2005) has been helpful because it is presented in the form of principles-based guidance.

In response to the Commission's question regarding new guidance for small companies, we believe such guidance would be useful. The same guidance may also be helpful to large companies, especially those with small entities, and should therefore, be made available to all public companies. Additional areas for guidance consideration that would improve efficiency without sacrificing effectiveness should include: additional definition of key controls, increased reliance on management's assessment results for all control types, instances where entity level controls could be utilized rather than low-level account and transactional controls, and multi-year assessments, rotational testing and rotational audits.

The Aerospace Industries Association represents the nation's leading manufacturers and suppliers of civil, military, commercial and business aircraft, helicopters, unmanned aerial vehicles, space systems, aircraft engines, missiles, materiel and related components, equipment, services, and information technology.

If there are any questions concerning our comments, please contact Mr. Dick Powers, Aerospace Industries Association, Director of Financial Administration, on (703) 358-1042 or by email at (dick.powers@aia-aerospace.org).

Sincerely,
and very Respectfully,
John

John W. Douglass
President & CEO

Attachment

JWD:rjp

Attachment

Commission's Questions and AIA Responses:

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 Section 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 Section 404 requirements?

    - While additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting would be useful, we believe such guidance should not be of a prescriptive nature, but rather "principles based" and broad in its coverage for universal application. Assessing internal control over financial reporting is an art not a science and involves a significant amount of judgment. Systems, processes, and controls vary from company to company and from industry to industry, making detailed guidance impractical. Hence, as noted above, any additional guidance should be of a general nature and not prescriptive .

      It should also apply to all reporting companies subject to the Section 404 requirements. Separate guidance for different types of companies will only cause confusion and create multiple classes of internal control requirements. We see no "potential limitations" to developing a single guidance document applicable to "most or all" reporting companies subject to Section 404 requirements. It is our view that the principles and framework of internal control have universal application and do not differ based on the size of the company.

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 a company's internal control over financial reporting? If so, what are these? Are such considerations applicable to all foreign private issuers or only to a sub-group of these filers?

    - Not applicable as our member companies are not foreign private issuers.

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

    - As explained under #1 above, additional guidance should be limited to articulation of "broad principles" and should not be detailed or prescriptive.

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

    - Guidance could be issued as to whether or not management needs to follow the external auditors sample size for internal control transactional testing.

- Also, we would like the Commission to provide additional guidance on the following:

  - The evaluation of exceptions found in a service organization's SAS 70 Type II report. Specifically, should the exceptions found in the report be evaluated as though they were found within the issuer's own processing environment?

  - Compensating controls—both a definition of these controls as well as their use in the evaluation of deficiencies. We are particularly interested in understanding whether controls have to be tested or otherwise evaluated prior to being eligible for the definition of "compensating."

  - Rotational testing and acceptability of that testing technique based on risk.

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

   - Additional guidance in the format of a Commission rule is not our preference. For the reasons explained under #1 above, the guidance should be "principles based." By its very nature, rule-based guidance takes on a rather legal or mandatory connotation, and leads to inflexibility in its application.

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?

   - Our member companies have utilized the following approaches or combination of approaches in assessing internal control over financial reporting.

     - <u>Self assessment with risk-based testing</u>. This approach requires each company's process owner(s) to periodically evaluate the key control(s) by answering a series of questions that relate to the performance of the control, including: a description of any process or control changes, a description of any known exceptions, and positive confirmation that the control was monitored and appropriately documented. If the control has been assessed as "low risk," management testing at the individual transaction level may not be necessary. A company may also assess key controls to be "medium" or "high" risk. Where this occurs, the company typically performs "nominal" (4 or 5 selections) or "full" (e.g. 30, etc.) sample management testing, respectively. In any case, self-assessment is performed for all key controls.

     - <u>Testing of key controls only.</u> This approach requires testing of key transactional controls over financial reporting based on pre-defined test steps involving the selection of specific samples of transactions.

The testing of controls is conducted either by utilizing the company's internal staff or by utilizing hired resources, or a combination of both. We have generally found that utilizing internal staff is less expensive, allows for the protection of company sensitive information, and provides a very effective means of cross-training associates.

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 best be mitigated? Would more detailed Commission guidance hamper future efforts by others in this area?

   - While additional guidance will be useful, it should meet the following criteria:

     - be principles based, not rules based,
     - broad in coverage, and
     - have universal application.

8. Why have the majority of companies who have completed an assessment, domestic and foreign, selected COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework rather than one of the other frameworks available, such as the Turnbull Report? (Parenthetical added.) 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?

   - We believe the selection of the COSO framework was largely based on the following criteria:

     - The COSO framework is the most widely adopted framework and is therefore, presumed to be well known to most companies;

     - Many companies had already adopted the COSO framework in their development of internal control policies before the advent of the Sarbanes-Oxley Act of 2002 but after the implementation of the Foreign Corrupt Practices Act; and

     - The COSO framework is simple and easy to follow.

   - In our view there is no need to develop additional frameworks. "Keep it simple" should be the mantra in selecting a framework. If companies prefer to use other frameworks such as the Turnbull Report, the Criteria of Control (CoCo) Framework or the Cadbury Framework, the Public Company Accounting Oversight Board (PCAOB) Auditing Standard 2 already allows the use "a suitable, recognized control framework."

9. Should the 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?

- Guidance that the SEC may release should incorporate the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting."

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 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?

    - The Sarbanes-Oxley Act Section 404(a) clearly requires management to implement a system of internal control over financial reporting and assess the "effectiveness" of the system. Section 404(b) requires that external auditors attest to and report on management's assessment, but the Act does not require a separate external auditor test and opinion on the internal controls over all significant accounts, all assertions every year and prescriptive guidance as to which controls require auditor principal evidence. These additional requirements have resulted in very comprehensive year-to-year testing by management and the auditors, and multiple auditor opinions.

    - While we understand that this has been discussed in prior sessions and the likelihood of removing the PCAOB's separate audit of internal controls is minimal, we believe the Act contains sufficiently rigorous requirements on management and penalties for non-compliance to ensure management accountability, without a separate annual test and opinion by external auditors. We do not expect that the auditors would merely "rubber stamp" management's assessment; rather, we would expect them to perform sample testing of the company's internal controls to support their opinion on management's assessment and their financial audit.

    - Therefore, to help ease the burden caused by the expansion of Section 404(b) requirements, we suggest relief in the areas of: the full year-to-year audit of internal controls over all significant accounts and all assertions; the required controls to which the auditor's principal evidence threshold should be applied; and the "annual" review and opinion of management's assessment program. More reliance on entity controls testing, rotational audits, allowance of reliance on management's control testing of all control types, and multi-year assessments would also be helpful. Where there have been unqualified audit opinions on management's assessment program, evidence of strong entity controls and unqualified opinions on the system of internal controls, the application of multi-year risk assessment and balanced judgment would still achieve the same goal intended by the Act.

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?

- Guidance contained in the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting" issued by the SEC.

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?

- The guidance regarding the top-down risk assessment approach provided in the May 16, 2005 staff communication is useful and should be incorporated as official general guidance in this area. It would also be helpful to have more examples of what are considered key controls, both financial and Information Technology (IT) controls. The revisions to the guidance should take the form of examples and illustrations rather than prescriptive requirements.

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?

- We believe all guidance regarding internal control should be applicable to both large and small companies and should be allowed to be scaled for each to a reasonable level. The COSO guidance for smaller public companies expands on the original COSO framework to include principles of a well designed internal control environment for each of the COSO elements. Included in the document are very specific examples, tools and checklists that can be applied to varying degrees by all companies, regardless of their size. In addition to a company's internal control framework, such guidance will provide a more detailed, risk-based approach to the design and assessment of internal control.

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?

- We believe all guidance regarding internal control should be applicable to both large and small companies and should be allowed to be scaled for each to a reasonable level.

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 transactional controls)? Should these issues be addressed differently for larger companies and smaller companies?

- We would like the Commission to provide examples of where higher level controls could replace the use of low-level account or transactional controls. As an example, in the aerospace and defense industry, a typical "key control" is the Estimate at Completion (EAC) analysis performed at the program level. This is an estimate of the total costs required to fulfill contract requirements at the completion of the task calculated by adding cumulative-to-date actual costs to the forecasted cost of authorized remaining work. Due to the scrutiny, review and approval these program analyses receive, we believe it could be an example of where a high level control (i.e., the EAC) is a better key control than one that is lower level, such as purchase order approval.

16. Should guidance be given about the appropriateness of and extent to which quantitative and qualitative factors, such as 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?

- We believe that quantitative factors are well understood, but additional guidance or examples of how qualitative factors may or may not result in a significant account being included in scope would be helpful. As an illustration, one of our member companies has a fixed asset balance at a significant location that is double the company's established materiality threshold. However, the balance relates to a campus of buildings that have been in place for many years. The company has concluded that even though the balance is quite high, the risk of material misstatement is low, and therefore no key controls have been identified, evaluated and tested for this account. This has been a contentious issue with the company's outside auditors.

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?

- The 2002 guidance issued by the AICPA Fraud task force was used to evaluate "antifraud" risks and controls and was found to be helpful, especially for the entity level. Our member companies have generally relied on management's professional judgment in this area and believe we have adequately integrated antifraud controls into our Internal Control for Financial Reporting (ICFR). Therefore, we do not think further guidance is necessary.

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?

- The approach adopted by one of our member companies is as follows:

  - Given the risk profile and past history, the company establishes key coverage criteria for account balances in scope with Section 404 requirements. Additionally, the company, through prior discussions with its outside auditors, identifies two key metrics for coverage; one from the profit and loss statement and another from the balance sheet.

  - The company then identifies all individually significant locations as defined under PCAOB Accounting Standard Number 2 to include them in scope. Since there are very few such locations and the coverage metrics and threshold mentioned above cannot be reached by simply including the individually significant locations, the company identifies additional locations for Section 404 requirements based on size and specific risk, until the coverage levels are met.

- Another member company includes all sites over a certain financial threshold and then determines the number of processes and controls required for documentation and testing based on the level of financial activity. This approach provides coverage that is appropriately scaled for size and reasonable assurance. Such an approach may also be useful to small public companies.

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.

- Specific guidance for both management and the external auditor that would include examples of how entity level controls could reduce or eliminate the need for testing at the individual account or transaction level would be most helpful. Examples of best practice controls related to the control environment, period-end financial reporting and anti-fraud programs (e.g., ethics training, whistle blower programs, etc.) would be helpful.

  For an example of where it's believed a higher level control could be useful in reducing testing elsewhere, please see our response to question 15 (EAC example).

- In our efforts to ensure Internal Control over Financial Reporting, entity level controls that may help us reduce the level of testing are:

  - Process owner self-assessments of key controls on a periodic basis;
  - Risk assessments to determine nature, timing, extent of testing;
  - Budget-to-actual reporting;

- Trial balance reviews;
- Operating reviews; and
- Quarterly certifications.

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?

    - Both the SEC and the PCAOB have issued guidance[1] on the importance of a "top-down" approach; however, external audit firms have generally not incorporated this concept into their testing methodology. Therefore, management has not realized the benefits of the risk-based guidance, and this has resulted in onerous testing redundancies and excessive costs in meeting requirements for management's assessment.

    - Current sources of evidence that can be used by management in the ongoing monitoring of its controls effectiveness include Control Self-Assessments (CSA) and other entity-level controls. Where appropriate, an effective CSA process can be implemented to provide for continuous monitoring of internal controls. Through the performance of quarterly CSA reviews, management can monitor changes to its internal controls as well as determine if its controls are effective through limited testing[2]. Other entity-level controls provide top-level evidence that the lower-level processes (and detailed transactions) supporting those entity-level controls are working effectively. Examples include periodic reporting packages, budget vs. actual variance analysis, review of financial statements (i.e., individual business unit balance sheet reviews), disclosures committee reviews of financial statements, program and associated revenue recognition reviews, and a strong ethics program. Further guidance on evidential requirements of such controls would be helpful in order to avoid conflicts between management's assessment and how it will be evaluated by the external auditor. For example, is it enough to have these types of controls in place, or does formal documentation need to be kept as evidence?

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?

    - We believe all guidance regarding internal control should be applicable to both large and small companies and should be allowed to be scaled for each to a reasonable level.

---

[1] PCAOB Staff Questions and Answers – Auditing Internal Control Over Financial Reporting – May 16, 2005 Question and Answer 38;

[2] Guidance on the appropriateness of sample sizes would be helpful. For example, an on-going, low-risk control needs to have a sample of X transactions to demonstrate its effectiveness.

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 useful 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?

- To assist management in varying the nature and extent of evaluation procedures used to support its assessment, it would be useful to have guidance that focuses on

  - strong control environment/entity-level controls that reduce the amount of management testing performed in other areas;
  - evaluation procedures that would allow management to decide whether or not low risk controls should be tested at all or tested on a rotational basis; and
  - overall process testing that can reduce (or eliminate) separate evaluation testing of underlying controls supporting that process.

  For example, revenue recognition and the effectiveness of the associated internal controls are critical to any company's financial statement accuracy, which is the ultimate goal of achieving compliance with SOX 404. This is discussed more in our response to question 15. By looking at the EAC process, in conjunction with other entity-level controls from a broader perspective, companies can eliminate previously identified lower-level controls from testing because the higher-level controls are operating at a precise enough level to provide reasonable assurance the financial statements are not materially misstated.

- It would also be useful to include examples that explain how general concepts like risk, materiality, and other control attributes impact the decision as to when to use separate evaluations versus ongoing monitoring. Examples would provide context for both management and the external auditors in applying the guidance and they would support the use of consistent criteria in the performance and evaluation of management's assessment of internal controls. Currently, if management's nature and extent of testing does not match that of its external auditors, then potential gaps could result in opinions and assessments.

  In general, the guidance should reaffirm that management has the ability to exercise its judgment on the nature and extent of testing performed, and that the external auditor's opinion should be based upon management's assessment.

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?

- Guidance re-emphasizing that management, without performing additional year-end testing, may rely on its direct and ongoing monitoring of the operation of controls tested earlier in the year to support its annual assessment. Guidance should also stress that management may rely on prior year tests for controls that have not changed and are of lower risk.

Additionally, for controls which have not changed from the prior certification year, guidance allowing management the ability to use evidence from a prior fiscal year to support an operational effectiveness test in the current fiscal year would provide management with the time to focus nearer the report date on testing controls that have changed or are of a higher risk.

This guidance would be particularly beneficial for companies with automated controls, including ITCG controls, and manual controls which remain stable from year to year. It would allow these types of controls to be tested at levels that better correlate to their overall risk to the financial statements.

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?

- Examples of controls that have only an indirect relationship to a specific financial statement account or disclosure include Information Technology General Controls (ITGC). We would find examples of General Computer Controls (GCC) deficiencies and their evaluation appropriate and helpful. Of particular interest would be examples where such deficiencies could be evaluated as either significant or material.

- Also, we have noted in making assessments of those critical controls that do not have a direct relationship to the financial statements, that it is difficult, if not impossible, to assess the materiality of a deficient control.

  Certain entity-level controls fall into this category:

  - Control environment (tone at the top, assignment of authority and responsibility, policies and procedures, ethics programs);
  - Risk assessment process;
  - Controls to monitor results of operations (budget vs. actual analysis, program reviews);
  - Controls to monitor internal control (internal audit function, audit committee, self-assessment programs); and
  - Controls over information technology (both general computer controls and application specific).

Therefore, to assess the materiality of a deficient entity-level control, AIA proposes that indirect entity-level controls (i.e., the entity-level control environment) be given an overall assessment that would determine the nature and extent of testing performed on controls that have a direct relationship to the financial statements. The entity-level control environment could be identified as either Strong (would reduce control testing), Satisfactory (neutral rating that warrants rotational control testing), or Weak (increase control testing).

This framework is already supported by the guidance provided in Paragraph 52 of Accounting Standard Number 2 issued by the PCAOB which states "Controls at the company-level often have a pervasive impact on controls at the process, transaction or application level. For that reason, as a practical consideration, it may be appropriate for the auditor to test and evaluate the design effectiveness of company-level controls first, because the results of the work might affect the way the auditor evaluates other aspects of internal control over financial reporting."

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

    - It would be helpful to incorporate the guidance contained in the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting" issued by the SEC.

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 part of the financial statement close process? If so, please explain.

    - It would be helpful to incorporate the guidance contained in the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting" issued by the SEC.

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?

    - It would be helpful to incorporate the guidance contained in the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting" issued by the SEC.

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)?

    - One example of how technology has been used to gain efficiency in evaluating the effectiveness of internal controls includes the implementation of an enterprise-wide compliance software product that is the single repository of all controls. This product is web enabled, integrated with the company's email systems and uses workflow software to automate assessment and testing activities, including self-assessment.

- A number of our member companies are currently evaluating tools that perform automated "segregation of duties" (SOD) analyses within and across our systems, to prevent and/or detect conflicts in the SOD area. However, some companies may find the use of such tools prohibitively expensive.

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

    - Guidance would be helpful on how the risk assessment process might help companies reduce testing in certain in-scope IT general controls areas. For instance, risk assessment might conclude that controls over program changes and access to programs and data require significant testing, whereas risk concerning computer operations and/or back up and recovery is low which would mean that little management testing is necessary.

    - Generally, we have utilized a "top-down, risk-based" approach to determine which IT general controls could impact IT application controls directly related to the preparation of financial statements. If an application is deemed in-scope due to its direct support of a financial "key control," we map the application to the underlying infrastructure and ensure that key controls over program changes, access to systems and data, back-up recovery, and computer operations are tested, as appropriate.

30. Has management generally been utilizing 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?

    - We are not using proprietary frameworks. However, many of our companies use guidance (white papers) developed by their outside auditors or external audit firms and IT Governance Institute guidance issuances to scope ITGC efforts and develop "Common Key Controls" utilized across business segments for IT application controls.

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 our opinion, levels of documentation performed by management in the initial years of assessment were indeed beyond what was needed to identify controls for testing for some of the reasons already stated. Specifically, lack of clarity of both auditor expectations and the definition of "key" controls contributed to the excessive documentation efforts.

- Specific guidance would most likely be helpful to companies on a going-forward basis. Factors to be considered should include a focus on key controls, support for the "top-down, risk based" approach, and a discussion of the impact of entity-level controls.

32. What guidance is needed about the form, nature, and extent of documentation that management must maintain as evidence for its assessment of risks to financial reporting and control identification? Are there certain 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?

    - Guidance regarding the period of retention and specific examples of required data would be helpful. As an example, as the software tools supporting Sarbanes-Oxley requirements have matured, some companies are migrating from relatively unsophisticated systems to more robust and comprehensive systems. A concern facing these companies is the need to maintain the old software and outdated infrastructure supporting that software for data retention purposes only.

    - Additionally, guidance related to the depth of documentation supporting interim quarterly certifications vs. potentially more expansive end-of-year documentation would be useful.

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?

    - At present, each company must demonstrate a method for evaluation of the adequacy of internal control over financial reporting sufficient to satisfy its independent auditors. Guidance above and beyond audit requirements should cover data retention needs.

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?

    - Separate guidance for IT controls vs. financial reporting controls should not be necessary. Please refer to the 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?

    - All documentation to communicate processes, risks, controls, test evidence and deficiencies should be reasonable and take into consideration the size of the company, large or small.