new york state society of
NYSSCPA
certified public accountants

Home of the Trusted Professional
3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

February 27, 2007

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

By E-mail: rule-comments@sec.gov

Re: Securities and Exchange Commission Release Nos. 33-8762; 34-54976; File No. S7-24-06 – Proposed Interpretive Guidance for Management's Report on Internal Control Over Financial Reporting

Dear Ms. Morris:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned release of proposed interpretive guidance. NYSSCPA thanks SEC for the opportunity to comment on this release.

The NYSSCPA SEC Practice Committee deliberated the release and drafted the attached comments. If you would like additional discussion with us, please contact Mitchell Mertz, the Chair of the SEC Practice Committee at (212) 891-4048, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Thomas E. Riley
President

Attachment

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**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS TO THE US SECURITIES AND EXCHANGE COMMISSION ON RELEASE NOS. 33-8762; 34-54976; FILE NO. S7-24-06 – PROPOSED INTERPRETIVE GUIDANCE FOR MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

FEBRUARY 27, 2007

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Ernest J. Markezin

New York State Society of Certified Public Accountants

Comments to the US Securities and Exchange Commission on Release Nos. 33-8762; 34-54976; File No. S7-24-06 – Proposed Interpretive Guidance for Management's Report on Internal Control Over Financial Reporting

February 27, 2007

General Comments

- We welcome the opportunity to comment on the proposed interpretive guidance. On balance, we believe the Commission has done a fine job in setting the right tone in drafting this interpretive guidance. The proposed guidance is well organized and the illustrative examples add clarity.
- Management should find this guidance very useful as it provides companies with the flexibility to exercise greater judgment in the design and execution of a risk-based controls assessment plan, and allows companies to focus on risks and controls that are most critical to the integrity of financial reporting.
- The two overriding principles described in the proposed interpretive guidance are logical and consistent with the risk-based, top-down approach embraced by the Commission. Such principles should provide management with the flexibility to develop a scalable, risk-based assessment methodology that is not only cost-effective but also sustainable.
- This guidance should promote greater efficiency in the controls evaluation process as management is (a) not required to identify or document every control in a process, and (b) encouraged to focus on effective entity-level controls that are designed to mitigate the risk of a material misstatement.
- To ensure consistency in the application, we believe compliance with this guidance should be mandatory.

Comments on Evaluation of Control Deficiencies

- The Commission should consider providing specific guidance on "how to" aggregate and quantify control deficiencies. In the absence of such guidance and discussion of alternative methodologies, auditors often asked management to follow the guidance (and decision tree) described in the framework[1] on evaluating control exceptions and deficiencies. As a result, significant amounts of time and effort have been dedicated to the quantification of each control deficiency.

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[1] Version 3 of this framework on evaluating control exceptions and deficiencies was released on 12/20/04.

- Management should not be required to quantify the control deficiency if the company has effective compensating controls that operate at a level of precision that would prevent or detect a material misstatement.
- To enhance the effectiveness of the controls evaluation process, management should be encouraged to first conduct a qualitative assessment and determine if effective compensating controls exist to mitigate the risk of a material misstatement. The quantification aspect should only be required if management believes that the risk of a material misstatement is not effectively mitigated. Such clarification by the Commission will significantly promote both the efficiency and effectiveness of the controls evaluation process.