File No. S7-24-06
Comments to Management's Report on Internal Control over Financial Reporting

We welcome the opportunity to provide comments on the interpretive guidance for management regarding its evaluation of internal control over financial reporting pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404") released by the Securities and Exchange Commission

Overall we found the guidance beneficial; however clarification and specific examples are required in some areas.

We have summarized our comments on the questions contained in the release below.

Please note the comments provided are the personal comments of various role players within the SOX process and do not necessarily represent the views of the Sasol Group.

Regards,
Nina

Proposed Interpretive Guidance

1. **Will the proposed interpretive guidance be helpful to management in completing its annual evaluation process? Does the proposed guidance allow for management to conduct an efficient and effective evaluation? If not, why not?**

   Yes, this guidance is extremely helpful and the approach suggested is well defined and cost effective. This also provides us with a guideline to judge our efforts against.

   However, some areas of the guidance are vague (see next question) and should be expanded upon. We would also request examples to illustrate the application of certain sections of the guidance.

2. **Are there particular areas within the proposed interpretive guidance where further clarification is needed? Is yes, what clarification is necessary?**

   The following areas we would like additional clarification or examples on:

   - In identifying key controls, the guidance suggests that we look at the risk in determining what the potential magnitude of misstatement arising from the reporting risk. This is very broad and we would like some guidance what a key control is. Can a definition be provided? Can it be limited to one or a combination of controls to address a risk? Should the control entail who is performing control, frequency, evidence etc.?

   - What is the definition of redundant controls and why should there be redundant controls documented? I suggest that the guidance should relate to keeping the most efficient controls for SOX purposes.

- The interpretive guidance does not address fraud risks and the related fraud controls. What is the definition of fraud for SOX purposes? Currently this area is given a lot of attention and potentially too many risks and controls are being documented and tested.

- Please provide examples on entity level controls designed to identify possible breakdowns in lower-level controls.

- More guidance is required on the controls required over the use of spreadsheets. This is currently also an area that a lot of efforts are being focused on. Potentially too many risks, controls and tests are documented and exercised, but we require further information to make this determination.

- Further clarification is required on Information Technology General Controls (ITGC). As these do not directly relate to financial reporting it is still an area of debate. Specific guidance on what the requirements are for SOX compliance is needed.

- In multiple locations, the guidance says our consideration would include all our locations and businesses. Should this not be all significant locations?

- Please clarify what is meant by the objectivity of those performing self assessments. In the case of true self assessment with an independent review – is this objective or not? Control owner (responsible for performing the control) test the control and gathers evidence and the process owner reviews all the tests – will this constitute objective testing? Especially including internal audit reviews all SOX tests for areas falling within their annual plan.

- What would constitute adequate documentation? What might be considered adequate documentation by management might very well be inadequate for third parties conducting independent assessments for the company? More importantly would a situation were reviewing third party concludes that management did not keep adequate documentation result in a material weakness or significant deficiency? Can this lead to a qualification?

- Many auditors examining management's ICFR testing look for and expect to find direct evidence of control performance, such as signoffs and dating of approvals and reviews. It would be beneficial to specifically clarify that whether this is always required or not. Also, if this is required is some instances, those instances should be clarified.

- In reviewing the guidance, is it correct to reach the conclusion that, if we are satisfied with our review procedures for a specific account balance then detail testing of individual transactions will not be required to be documented?

- If a test fails, this guidance does not address whether the mitigating control must have been documented and tested or whether you can, once you have identified a control failure, then go and document the mitigating control and the results of that test. Since the guidance says that your documentation only requires documentation of the key controls on which you intend relying, the latter seems to be implied. Please clarify

- Please give more detail on what is meant by “update testing” on page 22.

- In the strong indicators of a weakness in ICFR it refers to identification by the auditor of a material misstatement that would not have been discovered by the company. The presentation of draft papers to the auditors should be addressed in the guidance

- Guidance on business process flow descriptions / narratives should be provided. What are the minimum requirements?

- Guidance on walkthrough requirements for management is required. Is it sufficient to tests controls for operating effectiveness and annually for design effectiveness or should a specific walkthrough be done as well? If so, what is the required frequency?

- Guidance should be provided on the frequency of testing.

3. Are there aspects of management’s annual evaluation process that have not been addressed by the proposed interpretive guidance that commenter believes should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?

Guidelines for evaluating deficiencies. A revised chart with examples of the evaluation of deficiencies should also be provided.

Additional guidance is required on the treatment of audit adjustments.
- It is common practice that if an audit adjustment is made, this is a significant deficiency. Can you please provide guidance on how we should evaluate these adjustments? Should the adjustment then be linked to a SOX risk and related control?
- The same guidance is also required for prior year adjustments.

Multiple location considerations - Guidance on the materiality to be used at multiple locations is required. Do we need to assess the risks at each location, or the complexity of the business unit in determining the materiality to be used? Should the same basis in calculating materiality at a corporate (consolidated - head office) level be applied at the business unit?

4. Do the topics addressed in the existing staff guidance (May [16,] 2005 Staff Guidance and Frequently Asked Questions (revised October 6, 2004)) continue to be relevant or should such guidance be retracted? If yes, which topics should be kept or retracted?

Yes, these remain relevant.

We suggest that this document be expanded to include a ‘frequently asked questions’ section so that there is only one comprehensive document that needs to be considered rather than having to look at a number of different sources.

5. Will the proposed guidance require unnecessary changes to evaluation processes that companies have already established? If yes, please describe.

No, the guidance does not prescribe specific changes and is of a general nature.

6. **Considering the PCAOB's proposed new auditing standards, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements* and *Considering and Using the Work of Others In an Audit*, are there any areas of incompatibility that limit the effectiveness or efficiency of an evaluation conducted in accordance with the proposed guidance? If so, what are those areas and how would you proposed to resolve the incompatibility?**

   Further clarification is required on the point raised at the bottom of page 29 where is stated "A control operates effectively when it is performed in a manner consistent with design by individuals with the necessary authority and competency."

   What is the 'necessary competency'?

   Will management be required to assess and provide evidence of the assessment that the control owners have the 'necessary competency'?

   Will the auditors have to audit this?

7. **Are there any definitions included in the proposed interpretive guidance that are confusing or inappropriate and how would you change the definitions so identified?**

   More detail can be provided on the term 'material'. Also the guidance should be integrated with the PCAOB's new statement to ensure that the same definitions of common terms are used. Examples include definition of 'significant deficiency', 'material weakness', 'reasonable assurance', etc.

   If the auditors work on a different set of definitions than management if will only result in more work for management as both definitions will have to be complied to in order to obtain an unqualified opinion.

8. **Will the guidance for disclosures about material weaknesses result in sufficient information to investors and if not, how would you change the guidance?**

   Yes, however how can not remediating a 'material weakness' be an option? As per the proposed guidance details of remediation "if any" should be provided. This has to be clarified.

9. **Should the guidance be issued as an interpretation or should it, or any part, is codified as a Commission rule?**

   It should be issued interpretation; however compliance with the guidance should result in compliance with the Act.

10. **Are there any considerations unique to the evaluation of ICFR by a foreign private issuer that should be addressed in the guidance? If yes, what are they?**

Yes, specific guidance should be provided on whether SOX relate to local accounting standards, international accounting standards or US GAAP or all three. Also, what are the requirements in case of IFRS reporting with US GAAP reconciliation?

At what point should audit adjustments be considered in the SOX process?

If IFRS financials statements are produced first, then it is adjusted for the US GAAP reconciling items and then the 20F is produced, what would the impact of an audit adjustment or an error in the IFRS financial statements be in terms of SOX? Would this also be classified as deficiency and evaluated?

Should legislation and environmental requirements for reporting also be evaluated as a SOX risk? And if so, to what extend?

Should the lack of adequate trained and competent people be evaluated as a financial reporting risk?

If there are multiple sites for an in scope process (for example the manufacturing stream), should controls be documented over all 18 sites or only the material sites?

11. Should compliance with the interpretive guidance, if issued in final form, be voluntary, as proposed, or mandatory?

It should be mandatory, however with an implementation period of say two years to give companies adequate time to adapt. I do not however, see major changes due the new guidance.

12. Is it necessary or useful to amend the rules if the proposed interpretive guidance is issued in final form, or are rule revisions unnecessary?

Yes, the rules should be revised.

13. Should the rules be amended in a different manner in view of the proposed interpretive guidance?

The rules should be amended to correspond with the guidance. The guidance providing more detail than contained within the rules.

14. Is it appropriate to provide the proposed assurances in Rules 13a-15 and 15d-15 that an evaluation conducted in accordance with the interpretive guidance will satisfy the evaluation requirement in the rules?

Yes

15. Does the proposed revision offer too much or too little assurance to management that it is conducting a satisfactory evaluation if it complies with the interpretive guidance?

More specific guidance is required with examples to make it clear.

16. Are the proposed revisions to Exchange Act Rules 13a-15(c) and 15d-15(c) sufficiently clear that management can conduct its evaluation using methods that differ from our interpretive guidance?

Yes

17. Do the proposed revisions to Rules 1-02(a) (2) and 2-02(f) of Regulation S-X effectively communicate the auditor's responsibility? Would another formulation better convey the auditor's role with respect to management's assessment and/or the auditor's reporting obligation?

This should refer to the revised PCAOB statement. Also, there should be consistency between the terms and definitions used.

18. Should we consider changes to other definitions or rules in light of these proposed revisions?

Document retention should be addressed. A lot of documentation is stored physically and electronically to comply with the requirement to provide evidence that the controls are operating effectively.

What are the minimum documentation retention periods?

PCAOB mentions seven years. Is the requirement the same for management?

19. The proposed revision to Rule 2-02(f) highlights that disclaimers by the auditor would only be appropriate in the rare circumstance of a scope limitation. Does this adequately convey the narrow circumstances under which an auditor may disclaim an opinion under our proposed rule? Would another formulation provide better guidance to auditors?

Yes

<u>Cost-Benefit Analysis</u> (Pages 54 – 59)

20. With increased reliance on management judgment, will there be unintended consequences?

As per the proposed PCAOB document, the external auditor will have to look at competency and objectivity. If the external auditor feels that personnel performing SOX testing are not competent and/or not objective, more work will have to be performed by the external auditor to gain comfort of the process. More work will also be required by management to proof this.

However, the requirement for auditors to only express an opinion on ICFR and no longer on management's assessment process should results in direct and indirect cost savings.