Manufacturers Alliance/MAPI
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April 28, 2006

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0609

RE: File No. 4-511

Dear Ms. Morris:

Background

The Manufacturers Alliance/MAPI (Alliance or MAPI) is submitting these comments in response to the Securities and Exchange Commission's (SEC or Commission) request for written feedback from registrants, auditors, investors, and others on "their experiences with complying with the Section 404 requirements" of the Sarbanes-Oxley Act of 2002 (SOX). As background, the Alliance is a leading executive development and business research organization serving the needs of senior management of our more than 500 member companies, which include many of the most recognizable names in U.S. business. Our diverse membership includes a full range of manufacturing and related business service industries. One of our primary activities is the operation of our Council program where executives in nearly every management discipline are brought together with their peers to share business knowledge, expertise, and best practices. Within this program structure are several Councils made up, respectively, of Chief Financial Officers and other senior financial officers from many of our member companies. Some 180 financial executives participate in these dedicated Council programs. Almost all of the companies participating on these Councils have significant SOX compliance experience. Moreover, many of the companies are large corporations with annual revenues in excess of $5 billion.

The primary purpose of these comments is to share with the Commission and the Public Company Accounting Oversight Board (PCAOB) the results of a recent survey of the financial executives that participate in our Council programs as to the continuing significant costs associated with year 2 Section 404 compliance. A draft of those survey results is attached for the SEC's and PCAOB's reference.

Survey Findings

The survey's key findings include:

- External auditor fees for 404 attestation declined by an average of 18.1 percent between Year 1 and Year 2 while the cost of the financial audit increased by 3.7 percent.

However, despite the decline in the external auditor fees for 404 attestation, the total cost of audit (financial and SOX) remains significantly higher than it was prior to SOX.This is due in large part to the continuing high costs of the financial audit.

- The average hourly audit fee for the financial audit fell from $199 in Year 1 to $191 in Year 2, a four percent decline. The average hourly audit fee for 404 attestation fell from $218 to $199, a decline of 8.7 percent.

- The cost of external, non-audit assistance for 404 attestation fell by 57.4 percent while internal audit costs for SOX compliance fell by 12.6 percent.

- The overall average cost of SOX compliance—including the cost of internal audit work, external non-audit assistance, and audit fees for 404 attestation--fell by 30.2 percent. Most companies thus have successfully reduced the cost of compliance. This decline was anticipated as companies established procedures for ongoing compliance with SOX.

- Despite the decline in compliance costs, the Audit Committees of most companies in this survey believe that these costs remain high. Just five percent of the respondents indicated their Audit Committee found compliance costs to be "fair and reasonable" while 41 percent said that costs are too high, even allowing for the inherent complexity of the compliance process.

Conclusion

The Sarbanes-Oxley Act has served as a significant vehicle in helping to restore confidence in U.S. financial capital markets in the aftermath of well-publicized episodes of corporate misconduct which took place several years ago. This law also continues to have costly and indiscriminate side effects for public companies. The most significant of these include increased burdens on management teams and significant cost for outside audit. While (as our attached survey results clearly demonstrate) the costs of compliance with the law have moderated somewhat in year 2, they are still high, especially given that they represent a significant cost over and above the traditional financial audit, the cost of which has not moderated since the advent of SOX. The challenge going forward for lawmakers and regulators alike is to see that the law evolves in a way that helps maintain a high level of investor confidence in the markets while, at the same time, reducing costly burdens on companies that do not serve that end. Section 404 compliance costs are real and they adversely affect the competitiveness of many U.S. companies. We believe that effective oversight can significantly reduce these costs without an erosion of confidence in the markets.

We have attached the results of our survey to demonstrate the magnitude of the current costs of Section 404 compliance. We encourage the Commission and the Board to review those results to better understand the costs companies are incurring today.

We commend the Commission for providing this opportunity for involved parties to voice their continuing concerns about Section 404. The Manufacturers Alliance appreciates having this chance to present the views of many of the more than 180 executives who participate in our financial Council programs on these important issues and stands willing to further develop those views as the need arises.

Thank you for consideration of our comments.

Sincerely,

Thomas J. Duesterberg
President and Chief Executive Officer

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MAPI SURVEY

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S-111 May 2006

The Cost of SOX and the Compliance Process: Year Two

by
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Manufacturers Alliance/MAPI
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The Alliance promotes the technological and economic progress of the United States through studies and seminars on changing economic, legal, and regulatory conditions affecting industry.

The Cost of SOX and the Compliance Process: Year Two

Introduction and Summary

As part of the Alliance's ongoing project to monitor and evaluate implementation of the Sarbanes-Oxley Act of 2002 (SOX), a questionnaire on compliance with the SOX was sent to senior financial executives with public corporations who are members of the Manufacturers Alliance/MAPI CFO and Financial Councils.* Based on publicly available data, the revenues for the 43 companies represented in this survey exceeded just over $350 billion in 2005.**

The questionnaire was divided into six parts and covered a wide range of issues associated with compliance, including the cost of complying with Section 404 of SOX. The results are presented in two sections. The first section reports aggregated results on the SOX compliance process and its cost. Most of the results include a comparison with the findings in last year's survey. In Section II, the responses to most of the questions in Section I are broken down by company size and/or by external auditor.

The Survey's key findings include:

- External auditor fees for 404 attestation declined by an average of 18.1 percent between Year 1 and Year 2 while the cost of the financial audit increased by 3.7 percent. Despite the decline in the external auditor fees for 404 attestation, the total cost of audit (financial and SOX) remains significantly higher than it was prior to SOX.
- The average hourly audit fee for the financial audit fell from $199 in Year 1 to $191 in Year 2, a four percent decline. The average hourly audit fee for 404 attestation fell from $218 to $199, a decline of 8.7 percent.
- The cost of external, non-audit assistance for 404 attestation fell by 57.4 percent while internal audit costs for SOX compliance fell by 12.6 percent.
- The overall average cost of SOX compliance—including the cost of internal audit work, external non-audit assistance, and audit fees for 404 attestation--fell by 30.2 percent. Most companies thus have successfully reduced the cost of compliance. This decline was anticipated as companies established procedures for ongoing compliance with SOX.
- Despite the decline in compliance costs, the Audit Committees of most companies in this survey believe that these costs remain high. Just five percent of the respondents indicated their Audit Committee found compliance costs to be "fair and reasonable" while 41 percent said that costs are too high, even allowing for the inherent complexity of the compliance process.

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*The questions for this survey were developed by Philip G. Weaver, Vice President and Chief Financial Officer at Cooper Tire and Rubber, John Davidson, Senior Vice President, Controller and Chief Accounting Officer at Tyco International, and Richard H. Fearon, Executive Vice President, Chief Financial and Planning Officer at Eaton Corporation.

**For the results of the last year's survey on SOX implementation, see Donald A. Norman, *The Cost of SOX and the Compliance Process—A Manufacturers Alliance/MAPI Survey*, S-105, March 2005.

Section I: Aggregated Results

Part 1: Company Information

The information in Part 1 provides an overview of the companies that took part in the survey. The size distribution of companies represented in this year's survey is very similar to last year's distribution. Based on data from public sources, the total revenues generated by the Companies in this sample for the latest fiscal year exceeded $350 billion. Almost half of the companies (46.5 percent) had revenues between $1 billion to $5 billion while 11.6 percent had revenues in excess of $10 billion. The extent to which companies in the sample used the various audit firms ranged from 44.2 percent for Ernst & Young, to 16.3 percent for Deloitte and KPMG. The percentage distribution of companies using one of the Big-Four audit firms is similar to last year's, with the main difference being a decline in the percentage of companies using PricewaterhouseCoopers.

1. What are your company's total worldwide annual revenues for the latest fiscal year?

	Year 1		Year 2	
	Number of Companies	Percent	Number of Companies	Percent
Less than $1 billion	20	33.3	13	30.2
$1 billion – $4.9 billion	29	48.3	20	46.5
$5 billion – $9.9 billion	4	6.7	5	11.6
$10 billion and greater	7	11.7	5	11.6
Total	**60**		**43**	

2. Who is your company's primary external auditor?

	Year 1		Year 2	
	Number of Companies	Percent	Number of Companies	Percent
PricewaterhouseCoopers	18	30.0	9	20.9
Deloitte	7	11.7	7	16.3
Ernst & Young	22	36.7	19	44.2
KPMG	12	11.7	7	16.3
Other (Grant Thornton)	1	1.7	1	2.3
Total	**60**		**43**	

Part II: The Sox Process

1. How would you characterize the magnitude of your SOX efforts?

Averages are presented in table below and the ranges of the responses appear in the following table. The number of companies providing information on each separate item is shown in parentheses. In both years several outliers from a couple of companies that are much larger than most other respondents were excluded in the tables below. The responses of these companies are included in the Section II where the results are broken down by company size.

Magnitude of SOX Efforts

	Average			
	Year 1		Year 2	
Number of locations/entities	64	(55)	60	(38)
Number of control objectives	484	(45)	456	(31)
Number of control activities	878	(39)	840	(32)
Number of individually significant locations	17	(55)	14	(38)
Number of locations that are in-scope due to specific risk considerations	9	(52)	3	(36)
Number of locations covered by company-level controls	68	(52)	53	(35)
Number of locations subject to only company level controls that will be visited	6	(46)	4	(30)
Number of in-scope data centers	12	(52)	12	(38)
Number of financially significant application systems	17	(51)	15	(37)

	Range	
	Year 1	Year 2
Number of locations/entities	1 – 800	1 – 800
Number of control objectives	4 – 5,000	9 – 4,411
Number of control activities	15 – 5,000	84 – 3,200
Number of individually significant locations	1 – 76	1 – 150
Number of locations that are in-scope due to specific risk considerations	0 – 70	0 –15
Number of locations covered by company-level controls	0 – 800	1 – 536
Number of locations subject to only company level controls that will be visited	0 – 76	0 – 27
Number of in-scope data centers	1 – 127	1 – 130
Number of financially significant application systems	1 – 70	1 – 75

2. What is the level of autonomy within your company on the following elements? Answer on a scale of 1 through 5 with 1 being such decision is made centrally by a corporate PMO type effort and 5 representing a decentralized model with such decisions being made at the segment or location level.

Level of Autonomy

	Average Rating	
	Year 1	Year 2
Location and business process scoping	1.25	1.23
Progress monitoring and timelines	1.53	1.44
Testing approach and sample sizes	1.24	1.38
Control objective/activity templates used for documentation	1.34	1.56
Deficiency evaluation and conclusions	1.39	1.47

Year 1: Based on 59 responses; Year 2: Based on 43 responses

3. Is the level of SOX compliance effort the same for all locations/entities?

	Year 1	Year 2
Yes	26 (44%)	13 (30%)
No	33 (56%)	30 (70%)

If no, how was the level of effort stratified in year 2?

Responses:

1. Top down approach supported identifying two financially significant locations from year 1 as locations with specific risks in year 2.
2. Included "some" operational audit issues.
3. Financial Data and Risk Assessment.
4. Year 1 included numerous new policies and procedures that are now in place and operating effectively.
5. Testing for businesses moved from Internal Audit to operations/entities. Testing for IT remained the same.
6. Due to our level of centralization, we were able to reduce the number of locations that we visited.
7. "Full Integrated Audit (includes both GAAP and SOX 404)" locations vs. "SOX 404 plus Analytics only."
8. Utilized a risk based approach for testing purposes. Some locations were tested in detail in year 2, and some were not tested based on low risk.
9. Due to acquisition activity in 2004, there was a reduced effort at some locations.
10. Based on financial reporting significance of locations, we performed less work at lower locations which were less significant.
11. Certain locations included in Internal Audit's cycle were counted toward SOX effort, which eliminated special visits to corrugated box plants.
12. In 2004, locations totaling 70% of revenue and 70% of total assets were considered significant and were audited by the external auditor. In 2005, those figures were reduced to 60%.
13. Accordingly, the number of locations subject to audit was reduced.
14. Reduced overall based on increased significance thresholds ($).
15. Less testing done at smaller, lower risk locations.
16. Retesting-yes; documentation-no.
17. A risk assessment was performed by all segments using common criteria: magnitude of financial operations/account; competency/tenure of Finance management; complexities of accounting transactions; processing environment; structural risk; history of errors and volatility and volume of transactions. The risk score drove the extent of design documentation and effectiveness testing.
18. 60% less.
19. Effort was stratified into three tiers based on financial statement balances: Tier 1 performed validation testing of controls, tier 2 performed documentation with validation of controls surrounding only certain areas of risk and Tier 3 performed no Sox testing.
20. Rationalized controls, only key controls were tested.
21. Based on size where we have large portion coverage; we would not test processes at all locations.
22. First year was scoping, mapping, and charting of activities and controls. Second year more detail into the actual controls and testing of them.
23. Less testing.
24. High degree of documentation and control testing performed at all locations deemed significant in the individual (around 12 sales offices/plants). High degree includes detail

process narratives, risk control matrices by business cycle and business process, cross-referencing between the narratives and the risk control matrices containing the key controls, and control testing for key controls. High degree of documentation and control testing performed a limited number of units for specific business process needed to obtain coverage requirements for consolidated financial lines or due to risk factors. (This related to corporate locations/departments, central processing locations, and some manufacturing entities.) A lesser level of process documentation and self assessment performed for remaining units that were considered covered for SOX purposes under the Company Level controls. Level of work for these units included internal control questionnaires/checklists. All units had to perform documentation and testing on a limited number of Company Level controls which covered code of conduct, certain HR functions, IT functions, and reporting functions. This was limited to approximately 20 key Company Level controls.

25. By control activities per locations.
26. Test hours, number of on site visits.
27. Sales, assets, risks.

4. What level of coverage do you achieve with your SOX documentation, evaluation and testing?

The average percentages of coverage are shown for Year 1 and Year 2 in the following table along with the number of respondents in parentheses. The level of coverage slipped slightly from Year 1 to Year 2.

Level of Coverage

	Average Percentage (Number of Companies)	
	Year 1	**Year 2**
Assets (Percent of total)	83 (53)	80 (40)
Significant Balance Sheet Line items (Percent on average)	81 (48)	79 (37)
Revenues (Percent of total)	82 (54)	78 (41)
Significant Income Statement Line Items (Percent on average)	81 (46)	76 (37)

	Range of Percentages	
	Year 1	**Year 2**
Assets (Percent of total)	65 – 100	60 - 100
Significant Balance Sheet Line items (Percent on average)	5 – 100	50 - 100
Revenues (Percent of total)	60 – 100	62 - 96
Significant Income Statement Line Items (Percent on average)	5 – 100	8 -100

Other Metrics:

1. Selection in year 1 performed based on percent of assets versus year 2 which was performed based on top down, risk based.
2. Cash-67%, Inventory-77%, Net Property-82%, Total Debt-87%, Cost of Sales-84%, Operating Expenses-82%.
3. The question above is for detailed control assessments; when company-level controls are also considered, we achieve 99% total asset coverage and 98% total revenues coverage.
4. 5% materiality rule or high risk area.
5. We achieved a high coverage percentage for Total Assets, but we were only required to achieve 60%. We had excess due to the number of units that had to be in scope to achieve the minimal coverage for Revenue (our other key financial metric for SOX scoping purposes). We achieved a high coverage percentage for other balance sheet and income statement line items, but we were only required to achieve 50%. We had excess due to the number of units that had to be in scope to achieve the minimal coverage for Revenue (our other key financial metric for SOX scoping purposes).
6. 73 % Operating Income.

Part III: Cost of Compliance

The survey included a number of questions related to the cost of complying with Sarbanes-Oxley. In this section, the responses for the entire sample are compared to those from last year. The tables that provide information on the cost of financial audits, the cost of 404 compliance, the internal costs devoted to 404 compliance and the cost of external non-audit assistance for 404 compliance exclude two large companies that did not participate in last year's survey as their inclusion would have distorted the comparison of Year 1 costs with Year 2 costs. Their inclusion would have raised the average audit and compliance costs in Year 2. The responses treated as outliers are included in Section II where the results are broken by company size and/or by auditor.

1. How much did your external, financial statement audit *(excluding 404 attestation)* cost?

Financial Statement Audit Costs

	Year 1	Year 2	%Change
Average	$2,499,000	$2,591,000	3.7
Median	$1,159,000	$1,119,000	
Range	$180,000–$21,000,000	$150,000–$20,000,000	
Number of Responses	58	42	

2. How are you being billed by your auditor for 404 attestation work?

The way in which companies are billed for 404 attestation work is changing. Last year, 59 percent of the companies were billed on an hourly basis. In Year 2, just 24 percent were billed on an hourly basis. Reliance on fixed fees with provisions for adjustment if the time required exceeds what was estimated increased from 29 percent to 52 percent.

How Billed for 404 Attestation?

	Year 1	Year 2
On an hourly basis	35 (59%)	10 (23%)
Fixed bill, based on the auditor's estimate of the time required	5 (9%)	7 (16%)
Fixed fee with a provision for adjustment if time required exceeds what was estimated.	17 (29%)	22 (51%)
Other	2 (3%)	4 (9%)
Number of Responses	59	42

Other:

1. Hourly at the start, fixed about 75% thru the process.
2. Hourly basis capped by a fixed range.
3. Domestic fees are billed on an hourly basis; and fixed bill are based on the auditor's estimate of the time required.
4. Nothing was fixed relating to fees.

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3. If billed on an hourly basis, how many hours were billed (or will be billed) by your external auditor *for 404 attestation*?

Hours Billed for 404 Attestation

	Year 1	Year 2	%Change
Average	7,461	4,205	-43.6
Median	5,208	2,693	
Range	650 – 25,600	674 – 25,000	
Number of Responses	37	16	

4. What did the external auditor fees for 404 attestation total?

External Auditor Fees for 404 Compliance

	Year 1	Year 2	%Change
Average	$1,969,000	$1,613,000	-18.1
Median	$2,036,000	$900,000	
Range	$190,000 – $18,000,000	$138,000 – $16,000,000	
Number of Responses	58	40	

5. How much will you spend for external but non-audit assistance used in 404 attestation?

Cost of External, Non-Audit Assistance

	Year 1	Year 2	%Change
Average	$2,278,000	$970,000	-57.4
Median	$1,000,000	$275,000	
Range	$0 – $30,000,000	$10,000 – 9,726,000	
Number of Responses	56	32	

6. How many internal hours have been devoted to 404 attestation?

Number of Internal Hours for 404 Attestation

	Year 1	Year 2	%Change
Average	38,252	28,502	-25.5
Median	19,000	7,800	
Range	2,000 – 380,000	1,800 – 350,000	
Number of Responses	52	31	

7. What is the cost of internal work for 404 attestation in Year 2?

Cost of Internal Work for 404 Attestation

	Year 1	Year 2	%Change
Average	$2,168,000	$1,894,000	-12.6
Median	$1,500,000	$600,000	
Range	$150,000 – $15,000,000	$100,000 - $20,000,000	
Number of Responses	50	32	

Cost of 404 Compliance—Year 1 Versus Year 2

On average, the companies in Year 2 spent $4.48 million for SOX Section 404 compliance, down 30.2 percent from Year 1. The average amount spent for the financial audit rose 3.7 percent to $2.59 million. Combined audit costs—for the financial audit and for SOX compliance—declined by 20.7 percent.

Total Cost of 404 Compliance

	Year 1	Year 2	%Change
External Auditor Fees for 404	$1,969,000	$1,613,000	-18.1
External, non-Audit assistance for 404	$2,278,000	$970,000	-57.4
Internal Audit costs for 404	$2,168,000	$1,894,000	-12.6
Total Cost of Compliance	$6,415,000	$4,477,000	-30.2
Cost of Financial Audit	$2,499,000	$2,591,000	3.7
Total Average Audit Cost (Financial and 404 Compliance)	$8,914,000	$7,068,000	-20.7

Benchmarking Financial Audit and 404 Compliance Costs

The average ratio of financial audit costs to total revenues and the ratios of the three 404 compliance cost components to total revenues provide benchmarks relating to the cost of audits.[1] The results shown in the table below are based on different numbers of companies since not every company provided data on each cost component. The average ratio of the financial audit fee to total revenues declined one percent despite the rise in the average cost of the financial audit. This is attributable the growth in total revenues for most companies between Year 1 to Year 2. The average ratio of SOX compliance costs to total revenues decreased by 38.8 percent. This ratio declined by more than the average cost of compliance (which fell by 30.2 percent) as a result of revenue growth between Year 1 and Year 2.

	Financial Audit Fee	External 404 Audit Fee	External Non-Audit 404 Assistance	Cost of Internal Work for 404	Total 404 Compliance Costs	Total Financial Audit plus 404 Compliance Costs
Average, Cost/Revenue:						
Year 1	0.100%	0.106%	0.118%	0.116%	0.340%	0.440%
Year 2	0.099%	0.075%	0.067%	0.066%	0.208%	0.307%

8. Were your financial statement audit fees fixed with respect to any of the factors listed in the table below?

Financial Statement Audit Fees Fixed?

	Year 1	Year 2
Cost	31 (55%)	19 (45%)
Hours	1 (2%)	0 (0%)
Hourly rates	7 (13%)	10 (24%)
Nothing was fixed	17 (30%)	13 (31%)
Number of Responses	56	42

9. Were your 404 attestation audit fees fixed with respect to any of the factors listed below?

404 Attestation Fees Fixed With Respect of Various Factors?

	Year 1	Year 2
Cost	7 (12%)	17 (40%)
Hours	1 (2%)	0 (0%)
Hourly rates	17 (30%)	11 (26%)
Nothing was fixed	32 (56%)	14 (33%)
Number of Responses	57	42

[1] Data on total revenues were collected from public sources.

10. Did your audit costs for 404 attestation work exceed the initial quotes?

Did 404 Audit Costs Exceed Initial Quotes?

	Year 1	Year 2
Yes	46 (90%)	18 (50%)
No	5 (10%)	18 (50%)

11. If your 404 audit costs in Year 2 exceeded initial quotes, by how much?

Extent to Which 404 Audit Costs Exceeded Initial Quotes

	Year 1	Year 2
Less than 10%	1 (2%)	8 (44%)
11-20%	7 (16%)	7 (39%)
21-30%	6 (13%)	0 (0%)
31-40%	3 (7%)	0 (0%)
41-50%	1 (2%)	2 (11%)
More than 50%	27 (60%)	1 (6%)
Number of Responses	45	18

12. Did you try negotiating a lower cost for 404 attestation work?

Did You Try Negotiating a Lower Cost for 404 Attestation Work?

	Year 1	Year 2
Yes	39 (72%)	34 (83%)
No	15 (28%)	7 (17%)

13. If you negotiated a lower cost for 404 attestation, by what percent was the cost reduced?

By What Percent Was the Cost of 404 Attestation Work Reduced?

	Year 1	Year 2
Average	11.8%	26.7%
Range	0 – 32%	0 – 79%
Number of Responses	21	21

14. Did you use internal resources to directly assist outside auditors with 404 work?

Did You Use Internal Resources for 404 Work?

	Year 1	Year 2
Yes	29 (51%)	22 (52%)
No	28 (49%)	20 (48%)

15. If you used internal resources, what was the approximate percentage reduction in your external 404 audit costs?

Reduction in External 404 Costs from Use of Internal Resources

	Year 1	Year 2
Average	17.8%	12.5%
Range	2 -50%	0 – 25%
Number of Responses	16	16

16. What was the average hourly audit rate for the financial statement audit?

Average Hourly Audit Rate for Financial Statement Audit

	Year 1	Year 2
Average	$199	$191
Median	$186	$186
Range	$115 - $400	$128 - $300
Number of Responses	40	33

17. What was the average hourly audit rate for 404 attestation?

Average Hourly Audit Rate for 404 Attestation

	Year 1	Year 2
Average	$218	$199
Median	$207	$191
Range	$150 - $500	$141 - $304
Number of Responses	43	33

18. What are your expectations for your company's financial statement audit costs (on a same entity basis) in 2006?

Expectations for Financial Statement Audit Costs in 2006

	Number	Percent
Financial statement audit costs will rise	18	43
Financial statement audit costs will fall	10	24
No change in financial statement audit costs	14	33

Based on 42 responses

19. What are your expectations for your company's 404 attestation costs (on a same entity basis) in 2006?

Expectations for 404 Audit Costs in 2006

	Number	Percent
404 audit costs will rise	7	17
404 audit costs will fall	28	67
No change in 404 audit costs	42	7

Based on 42 responses

20. What is your expectation regarding the relationship of 404 attestation costs to financial statement audit costs in 2005 (in terms of their proportions of total audit costs)?

	Number	Percent
404 costs will constitute a slightly smaller proportion of total audit costs	17	40
404 costs will constitute a significantly smaller proportion of total audit costs	4	10
The proportion between the two will not change	21	50

Based on 42 responses

21. For 2006, will your external audit fees for your financial statement audit and for 404 attestation be integrated?

Will Financial Audit and 404 Fees be Integrated in 2006?

	Number	Percent
Yes	28	65
No	10	23
Not sure at this time	5	12

Based on 43 responses

22. If your financial statement audit fees and fees for 404 attestation are integrated, do you expect a reduction in total fees?

With Integration of Audit Costs, Will Total Fees Decline?

	Number	Percent
Yes	10	32
No	15	48
Not sure at this time	6	19

Based on 31 responses

Part IV: Material Weaknesses/Deficiencies

1. What is the status of material weaknesses, if any, in Year 2?

	Number	Percent
There were no material weaknesses (or none are expected)	35	85
There were material weaknesses, but they have been (or soon will be) remediated	6	15
There were (or are) material weaknesses and they have not been remediated	0	0
Public filings were (or will be) delayed.	0	0

Based on 41 responses

2. If material weaknesses were found, were they domestic, non-domestic or domestic and non-domestic?

Nature of Material Weaknesses

	Number	Percent
Domestic	4	67
Non-domestic	2	33
Domestic and non-domestic	0	0

3. What is the nature of any material weaknesses?

The six respondents who indicated that material weaknesses were found were given the following options: 1) reserves; 2) revenue recognition; 3) asset/goodwill impairment; 4) income taxes; and 5) other. All six indicated "other".

4. Did your company have any significant deficiencies in Year 1 and/or Year 2?

Significant Deficiencies in Year 1 and/or Year 2?

	Year 1	Year 2
Yes	31 (72%)	19 (46%)
No	12 (28%)	13 (32%)
Do not know yet	N/A	9 (22%)
Number of Responses	43	41

5. If your company had significant deficiencies, how many were there?

Number of Significant Deficiencies in Year 1 and/or Year 2?

	Year 1	Year 2
Average	7.2	4.9
Range	1 - 52	1 - 23
Number of Responses	25	16

Part V: The Audit Process

1. Which of the following best describes the nature of your company's relationship with its auditor in Year 2?

Relationship with Auditor in Year 2

	Number	Percent
No change	15	36
The relationship improved in Year 2	20	48
The relationship deteriorated in Year 2	3	7
The relationship as become so bad that we likely will change our external auditor	1	2
Other	3	7

Based on 42 responses

<u>Respondent Comments:</u>

1. The engagement team is less involved this year but where they are involved they seem to be a little more focused.
2. The relationship was better until it came to finally getting the audit over the finish line where the auditor's obsession with their work paper practices has caused significant friction.
3. We have changed auditors.
4. We changed our external auditor after Year 1.

2. Which of the following statements best describes the interaction between finance personnel and your auditors?

Interaction Between Finance Personnel and Auditors

	Number	Percent
We had to complete work without consultation with auditors; otherwise we would have been deemed to have a material weakness.	0	0
We only provided completed information so no difference was noted	3	7
Our auditors would discuss issues with us to reach a conclusion as long as it was our work in the end.	36	88
We had to consult another firm on certain issues since our auditors would not assist us.	9	5

Based on 41 responses

3. As a result of the audits in Year 2, what changes do you expect in finance personnel resources at your company?

Changes in Finance Personnel

	Number	Percent
No changes	24	57
Add staff with more accounting and reporting expertise	16	38
Hire outside resources with accounting and reporting expertise to assist in the audit	2	5
Reduce staff	0	0

Based on 42 responses

4. What is your audit committee's reaction to the overall costs of SOX compliance in Year 2?

Audit Committee Reaction to Costs of SOX in Year 2

	Number	Percent
The costs are considered fair and reasonable	2	5
The costs are considered high, but the audit committee recognizes the impact of SOX.	21	51
The costs are considered too high, even allowing for compliance with SOX	17	41
The audit committee has not formally reacted yet	1	2

Based on 41 responses

Part VI: Going Forward

1. What do you see as potential emerging issues/concerns/trends going forward?

Respondents were given a list of alternatives and asked to check all that apply.

Emerging Issues, Concerns and Trends

	Frequency	Percent of Sample
More of the same—the compliance process and its costs will not change very much	16	41
A push to utilize dual-purpose testing	20	49
Increased reliance on management testing	29	71
Integration and reliance on control staff assessments	17	42
Increased implementation of fraud awareness programs	14	34
Other	7	17

Based on 41 responses

"Other":

1. Including SOX compliance as a factor in corporate incentive compensation.
2. Improved PCAOB guidance
3. Increase in automated controls
4. More push to raise key controls from application level to monitoring level or more reliance on monitoring level controls. Push for decrease in overall number of key controls.
5. Asset classification
6. More automated controls and more reliance on CLC's
7. Increase automated controls, decrease manual controls

2. Briefly describe your strategies going forward for reducing the cost of SOX compliance.

1. Continue to push Top Down approach and work with process owners to rationalize and optimize our control environment and key controls identified. Utilize strong tone at the top to support and rationalize annual testing plans. Continue to work with PwC to better coordinate the process to improve efficiency and agreement on deficiencies/evaluation.
2. Strong focus on identification and reviewing of Key Controls. Get better coordination with E&Y to verify that we are both considering the same items as Key Controls.
3. We will look at self-assessment; continue to train internal personnel on importance of documentation and discipline.
4. Develop enhanced awareness that process owners are responsible to monitor, test and assure controls are operating effectively.
5. Scoping-Our levels of percentage coverage is high. Focus will be driven to test sites from an audit perspective to meet requirements. We are also moving into a shared service environment due to recent changes to our scoping due to new acquisitions. This should lower costs.
6. Review key control activities in place and streamline control structure while maintaining sound controls.

7. Use of technology tool to better manage documentation and testing. Institutionalizing the internal control process within the company. Continual re-evaluation of the controls. Using the documentation and internal control process to gain process improvements.
8. Perform a more rigorous risk assessment in 4 areas: across business locations; by controls within business locations; by known specific business risk factors; and rationalization of IT general controls that need to be tested.
9. Continue to push the risk based, top-down approach and greater reliance on automated controls and management testing (via the company's continuous monitoring program and other initiatives).
10. 1. Increase education and awareness throughout company of appropriate documented controls. This will include conducting facilitated workshops/communication meetings to review control documentation. 2. Continue to integrate SOX testing into scheduled audit plan. 3. Continue to work with external auditors to integrate SOX testing with Financial Audit. 4. Continue to leverage different types of testing such as Control Self Assessments and Management Testing.
11. 1. Continue to build SOX compliance activities into the everyday job of relevant professional staff. 2. Consider some self-testing pilots at some of our facilities. 3. As a secondary benefit, capitalize on consistent system applications across businesses of the organization. 4. Continue to harmonize policies and procedures. 5. Demand an integrated audit approach from our external auditors.
12. Optimize the number of controls tested by: 1. Reducing the number of non-SOA relevant controls. 2. Utilizing higher level controls to reduce the overall number. 3. Utilizing more application controls. 4. Harmonization of testing sample sizes across business units that utilize the same processes and controls.
13. 1. Personnel-selective hires to increase internal capabilities and eliminate external resource. 2. Reengineer or automate controls-reengineer and where possible enhance controls through automation - to reduce burdensome manual controls instituted in the drive for 404 compliance.
14. The introduction of self-assessments for low risk areas. Increase the use of in-house language skills to reduce the costs of external consultants for international locations. Improve fieldwork communications to reduce reporting time and therein, cost. Increase testing of automated controls to reduce redundant testing at locations. Work more closely with PwC on reliance (although we don't expect much here).
15. 1. Testing more self-assessment processes; 2. Streamlining attribute testing within IT General Controls; 3. Decreasing level of IT General Controls testing if risk is deemed low and self-assessment processes are effective. 4. Incorporating more of the Internal Audit cycle tests into the 404 process.
16. Ongoing short-term: Standardizing the significant application systems and related significant controls throughout the organization. Improving process documentation and control testing at field locations. Longer-term: Investigate software solutions for assessing ICOFR.
17. More risk based approach to be utilized to reduce number of control objectives and activities.
18. 1. Enhance top down approach and reduce number of key controls relied upon; 2. Increased reliance on internal audit testing strategy; 3. Automated progress and testing monitoring.
19. Reduce the reliance on third party providers to perform the company's assessment.
20. 1. Standardize processes to the extent possible; 2. Reduce IT platforms/systems; 3.

Higher level control points; 4. Utilize shared service centers to greater extent.

21. Continue to strengthen ownership and internal control competencies at business unit level and reduce reliance on external resources.
22. We will continue to push for integration of the financial statement and internal control audits. On both audits, we will attempt to increase planning and add a more disciplined approach to scheduling and timing of work to avoid inefficiency and re-work.
23. 1) Develop a more efficient and repeatable/sustainable process, 2) Upgrade reporting tool (Risk Navigator) and 3) Develop more risk-based testing.
24. Global scoping vs. location scoping, rely on more application controls as a result of new IT systems.
25. Continue focusing on risk-based approach; ensure taking proper credit for company level controls on a global basis.
26. 1. Use of local Companies instead of big-4 Companies (reduce fees and expense); 2. Added an additional internal auditor to supplement resources; 3. Incorporate the SOX testing into the internal audit programs and routines for our field mfg locations and branches "leverage" on the internal audit resources, "expand" controls testing to the field locations; 4. Expand our testing of international locations.
27. 1. Converge to global processes. 2. Assess/rational to number of key controls. 3. Reduce testing based on effective risk ranking.
28. SOX compliance costs will only be significantly reduced by major changes to IT systems that allow for greater reliance on automated controls or through changing our business profile to have fewer larger business units. Incremental gains can be made by improved internal compliance that reduces the numbers of deficiencies to be evaluated and through better education by our US engagement team of their foreign teams as to effective and efficient auditing practices.
29. Reduce number of key controls to reduce time and effort. This would be achieved by downgrading low level application controls from key to non-key and relying more on monitoring level controls. Downgrading controls that even if they failed across many units they could never result in material weakness. Reduce General Computer control testing to once a year. Remove some duplicate documentation effort.
30. Use fewer, more experienced consultants.
31. Fewer key controls, more application controls, improved project management, improved documentation.
32. Standardize processes across significant locations so we can audit processes as opposed to locations.
33. 1. Reduce number of key control activities; 2. Align management's control framework with external auditor's framework; 3. Seek greater external audit reliance upon internal audit testing; 4. Reduce number of control activities tested; 5. Greater reliance on testing by reporting units; 6. Greater reliance on web based compliance software for tracking, monitoring, reporting; 7. Develop more company level controls; 8. Greater documentation of control activities by reporting units.
34. Management will initiate pre-planning sessions with our external auditors in order to identify areas where dual-purpose testing can be utilized. Additionally, our current year initiative of implementing consistent Company-wide Directives, Policies, and Procedures will reduce ramp up time required by the auditors when auditing our various business units.
35. 1) Push towards automated controls, 2) Higher reliance on CLC's, 3) Implementation of ERM which will benefit year 4.

36. Reduction in the number of key and mitigating controls; increase automation within processes.
37. We anticipate applying a rationalization of controls and control testing driven by a risk - based top-down approach.
38. Implementing SOX documentation software in 2006 to try to reduce internal tracking and assessment time and improve control over the process. We can hope that this reduces the external effort but probably unlikely.
39. Increased use of automation.
40. Greater reliance upon and utilization of the Internal Audit function, as well as potentially narrowing the scope and number of "key" controls identified for testing.
41. Align key controls tested in self-assessment framework with external auditor key controls. Greater alignment will result in external auditor's ability to rely more heavily on management's and internal auditing assessments and testing.
42. Place a greater emphasis on general computer controls so reliance can be placed on automated application controls for transactions. Use manual controls only in the accounting/financial reporting areas.

SECTION II: SELECTED RESULTS BY SIZE AND/OR AUDITOR

The responses to most of the questions in Section I are broken down by size and/or auditor in this section. The responses of companies that were treated as outliers in tabulations that were sensitive to company size in Section I are included here. As a result, the total number of respondents to some questions in Section II exceeds the number of respondents in Section I.

Part I: Company Information

In the table below, companies in the four size categories are sorted by their auditor. The percentage of companies in each category that use a given auditor is shown the parentheses. For example, there were 9 companies with revenues between $1 billion and $4.9 billion that use Ernst & Young as their auditor in this sample. These 9 companies represent 45 percent of the 20 companies in that size category.

Company Size	PwC	Deloitte	E&Y	KPMG	Other	Total
Less than $1 billion	3 (23%)	1 (8%)	6 (46%)	2 (15%)	1 (8%)	13
$1 billion-$4.9 billion	3 (15%)	5 (25%)	9 (45%)	3 (15%)	0 (0%)	20
$5 billion-$9.9 billion	2 (40%)	0 (0%)	2 (40%)	1 (20%)	0 (0%)	5
$10 billion and greater	1 (20%)	1 (20%)	2 (40%)	1 (20%)	0 (0%)	5
Total	**9**	**7**	**19**	**7**	**1**	**43**

Part II: The SOX Process

1. How would you characterize the magnitude of your SOX efforts? (Please respond to as many as are appropriate)

Magnitude of SOX Efforts

	Average			
	Less than $1 billion	$1 billion to $4.9 billion	$5 billion to $9.9 billion	$10 billion and greater
Number of locations/entities	21	28	23	348
Number of control objectives	201	531	598	12,424
Number of control activities	642	948	581	36,139
Number of individually significant locations	8	12	6	64
Number of locations that are in-scope due to specific risk considerations	2	5	1	167
Number of locations covered by company-level controls	18	28	19	385
Number of locations subject to only company level controls that will be visited	5	5	4	6
Number of in-scope data centers	3	12	2	44
Number of financially significant application systems	5	16	11	78

	Average				
	PwC	Deloitte	E&Y	KPMG	Other
Number of locations/entities	39	30	51	138	6
Number of control objectives	361	7,051	688	174	0
Number of control activities	851	21,056	743	1,116	573
Number of individually significant locations	16	11	16	10	6
Number of locations that are in-scope due to specific risk considerations	4	34	28	2	0
Number of locations covered by company-level controls	37	101	56	130	6
Number of locations subject to only company level controls that will be visited	6	6	4	2	0
Number of in-scope data centers	11	28	8	4	1
Number of financially significant application systems	34	12	18	9	4

2. Is the level of SOX compliance effort the same for all locations/entities?

	Number of Companies	
Company Size	Yes	No
Less than $1 billion	4	9
$1 billion-$4.9 billion	6	14
$5 billion-$9.9 billion	1	4
$10 billion and greater	2	3
Total	13	30

	Number of Companies	
	Yes	No
PricewaterhouseCoopers	3	6
Deloitte	0	7
Ernst & Young	7	12
KPMG	3	4
Other (Grant Thornton)	0	1
Total	13	30

3. What level of coverage do you achieve with your SOX documentation, evaluation and testing?

	Average of Responses (Percent)			
	Less than $1 billion	$1 billion to $4.9 billion	$5 billion to $9.9 billion	$10 billion and greater
Assets (Percent of total)	82	79	82	75
Significant Balance Sheet Line items (Percent on average)	81	78	81	74
Revenues (Percent of total)	83	75	79	75
Significant Income Statement Line Items (Percent on average)	71	79	82	72

	PwC	Deloitte	E&Y	KPMG	Other
Assets (Percent of total)	82	82	78	80	93
Significant Balance Sheet Line items (Percent on average)	77	81	81	74	0
Revenues (Percent of total)	76	82	77	78	93
Significant Income Statement Line Items (Percent on average)	77	80	75	76	0

Part III: Cost of Compliance

1. How much did your external, financial statement audit *(excluding 404 attestation)* cost?

As shown in the table that follows, the average financial audit fee rises with company size, as measured by total revenues.

	Average of Responses (thousand dollars)			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
External Audit Cost (excluding 404 attestation)	$847	$1,438	$5,589	$11,420
Number of companies	13	20	5	5

A regression equation was estimated to measure the effect of company size on financial audit fees. The results, based on financial audit fees and revenues in 2005, are shown in the next table:

Variable	Coefficient	t-Statistic
Constant	1.136	2.43
Revenue	0.000297	6.59
R-Squared: 0.526		Observations: 41

The coefficient for revenue can be interpreted as follows: A $1 billion increase in annual revenues is associated with, on average, an increase in the financial audit fee of $297,000. A log linear form of this equation shows that as a company's annual revenues increase by one percent, its financial audit fee will increase by 0.67 percent. This means that audit fees do not rise as fast as annual revenues.

2. How are you being billed by your auditor for 404 attestation work?

	Number of Companies			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
On an hourly basis	6	4	0	0
Fixed bill, based on the auditor's estimate of the time required	2	2	2	1
Fixed fee with a provision for adjustment if time required exceeds what was estimated.	4	13	2	3
Other	1	1	1	1
Number of companies	13	20	5	5

	PwC	**Deloitte**	**E&Y**	**KPMG**
On an hourly basis	2	3	4	0
Fixed bill, based on the auditor's estimate of the time required	1	1	4	1
Fixed fee with a provision for adjustment if time required exceeds what was estimated.	4	3	11	4
Other	2	0	0	2
Number of companies	9	7	19	7

3. If billed on an hourly basis, how many hours were billed (or will be billed) by your external auditor *for 404 attestation* in Year 2?

	Average of Responses (thousand dollars)			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
Number of hours billed for 404 attestation	$2,739	$3,169	$13,175	NA
Number of companies	8	6	2	NA

4. What will the external auditor fees for 404 attestation total in Year 2?

	Average of Responses (thousand dollars)			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
External Auditor fees for 404 attestation	$569	$1,114	$2,548	$6,554
Number of Companies	13	19	4	5

5. How much will you spend for external but non-audit assistance used in 404 attestation in Year 2?

	Average of Responses (thousand dollars)			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
Expenditures for external but non-audit assistance used in 404 attestation	$299	$840	$1,381	$4,170
Number of Companies	11	14	3	5

6. How many internal hours have been devoted to 404 attestation Year 2?

	Average			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
Number of internal hours devoted to 404 attestation	4,668	18,899	20,000	228,592
Number of Companies	12	14	1	5

7. What is the cost of internal work for 404 attestation in Year 2?

	Average of Responses (thousand dollars)			
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
Cost of internal work for 404 attestation	$374	$1,617	$3,740	$13,203
Number of Companies	12	12	1	5

Cost of SOX Compliance by Company Size

The effect of company size on the cost of compliance is readily apparent in the following table where the average costs for the three components of SOX compliance are combined for companies in the four size categories. The averages in each column are based on different numbers of companies because some respondents did not provide cost information on each component.

Cost of SOX Compliance by Company Size (thousand dollars)

	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**
Average External Auditor Fees for 404 Compliance	$569	$1,114	$2,548	$6,554
External but Non-Audit Assistance for 404	299	840	1,381	4,170
Internal Audit Costs for 404	374	1,617	3,740	13,203
Totals	$1,167	$2,581	$3,615	$23,927

8. Did you use internal resources to directly assist outside auditors with 404 work in Year 2?

	Number of Companies	
Company Size	**Yes**	**No**
Less than $1 billion	6	7
$1 billion-$4.9 billion	9	10
$5 billion-$9.9 billion	5	0
$10 billion and greater	2	3
Total	**22**	**20**

	Number of Companies	
External Auditor	**Yes**	**No**
PricewaterhouseCoopers	5	4
Deloitte	3	4
Ernst & Young	11	8
KPMG	2	4
Other	1	0
Total	**22**	**20**

9. What was the average hourly audit rate for the financial statement audit in Year 2?

	Average of Responses				
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**	**Entire Sample**
Hourly audit rate for financial statement audit	$211	$173	$193	$220	$191
Number of companies	10	16	4	3	33

	PwC	**Deloitte**	**E&Y**	**KPMG**
Hourly audit rate for financial statement audit	$185	$182	$197	$197
Number of companies	8	6	15	3

10. What was the average hourly audit rate for 404 attestation in Year 2?

	Average of Responses				
	Less than $1 billion	**$1 billion to $4.9 billion**	**$5 billion to $9.9 billion**	**$10 billion and greater**	**Entire Sample**
Hourly audit rate for 404 attestation	$215	$182	$202	$243	$199
Number of companies	11	16	4	2	33

	PwC	Deloitte	E&Y	KPMG
Hourly audit rate for 404 attestation	$180	$193	$206	$216
Number of companies	7	6	15	4

11. What is your expectation for your company's financial statement audit costs (on a same entity basis) in 2006?

Number of Companies

	Less than $1 billion	$1 billion to $4.9 billion	$5 billion to $9.9 billion	$10 billion and greater	Entire Sample
Costs will rise	7	7	2	2	18
Costs will fall	1	6	1	2	10
No change in costs	4	7	2	1	14
Total	12	20	5	5	42

	PwC	Deloitte	E&Y	KPMG	Other
Costs will rise	6	4	8	0	0
Costs will fall	2	2	6	0	0
No change in costs	1	1	4	7	1
Total	9	7	18	7	1

12. What do you expect will happen to 404 attestation costs (on a same entity basis) in 2006?

Number of Companies

	Less than $1 billion	$1 billion to $4.9 billion	$5 billion to $9.9 billion	$10 billion and greater	Entire Sample
404 costs will rise	3	2	1	1	7
404 costs will fall	9	13	3	3	28
No change in 404 costs	1	4	1	1	7
Total	13	19	5	5	42

	PwC	Deloitte	E&Y	KPMG	Other
404 costs will rise	3	0	4	0	0
404 costs will fall	3	6	13	5	1
No change in 404 costs	2	1	2	2	0
Total	8	7	19	7	1

13. What is your expectation regarding the relationship of 404 attestation costs to financial statement audit costs in 2006 (in terms of their proportions of total audit costs)?

Number of Companies

	Less than $1 billion	$1 billion to $4.9 billion	$5 billion to $9.9 billion	$10 billion and greater
404 costs will constitute a slightly smaller proportion of total audit costs	5	9	2	1
404 costs will constitute a significantly smaller proportion of total audit costs	1	2	1	0
The proportion between the two will not change	7	9	1	4

	PwC	Deloitte	E&Y	KPMG	Other
404 costs will constitute a slightly smaller proportion of total audit costs	3	3	6	4	1
404 costs will constitute a significantly small proportion of total audit costs	1	1	1	1	0
The proportion between the two will not change	4	3	12	2	0

Part V: The Audit Process

1. Which of the following best describes the impact various changes that the audit approach and SOX 404 have had on your company's relationship with your auditor?

	PwC	Deloitte	E&Y	KPMG
No change between year 1 and year 2	3	4	5	2
The relationship improved in year 2	4	2	10	4
The relationship deteriorated in year 2	0	1	1	1
The relationship as become so bad that we likely will change our external auditor	0	0	1	0
Other	2	0	1	0
Number of companies	9	7	18	7

2. Which of the following statements best describes the interaction between finance personnel and your auditors?

	Number of Companies			
	PwC	Deloitte	E&Y	KPMG
We had to complete work without consultation with auditors; otherwise we would have been deemed to have a material weakness.	0	0	0	0
We only provided completed information so no difference was noted	0	2	0	1
Our auditors would discuss issues with us to reach a conclusion as long as it was our work in the end.	8	5	16	6
We had to consult another firm on certain issues since our auditors would not assist us	0	0	2	0

3. What is your audit committee's reaction to the overall costs of audit in the wake of SOX?

	Number of Companies			
	Less than $1 billion	$1 billion to $4.9 billion	$5 billion to $9.9 billion	$10 billion and greater
The costs are considered fair and reasonable	0	1	0	1
The costs are considered high, but the audit committee recognizes the impact of SOX.	6	11	2	2
The costs are considered too high, even allowing for compliance with SOX	6	7	2	2
The audit committee has not formally reacted y	0	1	0	0