Crowe™

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February 20, 2006

Mr. Jonathan Katz
Committee Management Officer
U.S. Securities and Exchange Commission
100 F. Street, N.E.
Washington, DC 20549-6561

Dear Mr. Katz:

Crowe Chizek and Company LLC wishes to provide observations regarding certain recommendations of the Advisory Committee on Smaller Public Companies (the "Committee") as reflected in the draft of the "Final Report of the Advisory Committee on Smaller Public Companies to the Securities and Exchange Commission" dated February 14, 2006, and posted to the SEC's web site as part of the Agenda for the meeting to be held February 21, 2006. While we anticipate responding more fully to the final report, we are submitting this letter because of what we believe is a gap in the public testimony related to the proposals regarding internal control auditing.

We are fully supportive of the Committee's attempts to provide recommendations to more carefully balance the costs and benefits of the internal control assessment and auditing requirements for companies of various sizes. We agree with the testimony of many that the costs of the requirements, which are uniform in their application without regard to company size, create an inappropriate burden on many companies. However, we believe that the Committee's "in or out" approach, particularly as it relates to auditor involvement, will lead to a less effective process than the Committee members anticipate and will also have an unintended consequence in the market for auditing services.

Under the Committee's proposal, Smallcap companies (those with market capitalization between $128 million and $787 million) would comply with the current internal control assessment requirements of management. However, this process would not be subject to auditor review. We believe this approach will provide less benefit, at a greater cost, than an alternative approach which would limit the scope of controls to be assessed, but still include auditor involvement. Such an alternative approach would require new rule-making -- "ASX" (for Audit Standard X) per the draft report.

Why less benefit? In another environment, the proposed recommendation might be effective. However, as fully described in the public testimony, there is little guidance to companies on how to undertake an effective internal control assessment. Smallcap companies in particular have turned to their auditors for guidance on implementation. Our first-hand experience is that for management's assessment to be effective at Smallcap companies, the discipline brought to bear by auditor involvement will frequently be required. Without auditor involvement, there is a risk that the process will become a middle management compliance exercise rather than a real assessment of the effectiveness of internal control over financial reporting. Smallcap companies still do not have many personnel with a deep knowledge of internal control assessment, while many public accounting firms have deeper pools of such expertise.

Why more cost? Again, as supported in the public testimony, internal costs are the larger cost of the internal control assessment process. This is particularly true for the Smallcap companies we work with, where the cost of internally allocated labor and outside consultant fees have greatly exceeded our incremental audit fees. If management continues to devote the appropriate resources to their assessment, without auditor involvement, they will continue to bear the higher cost portion of the process, while losing the insight, discipline and experience auditors can bring to bear.

We believe the alternative approach considered by the Committee, suggesting a process focusing on those controls most likely to result in a material weakness and reducing or eliminating the effort applied to more mechanical controls, would retain the discipline of auditor involvement and would allow for substantial savings on internal costs while still meeting the intended purpose of SOX. Such an approach might be lower in total cost than the Committee's proposed approach, and would provide a more effective assessment.

We also mentioned an unintended consequence. Auditor involvement would only be required for Larger Public Companies. Currently, firms other than the Big Four audit only a tiny fraction of Larger Public Companies, however they audit a much larger portion of Smallcap companies. Removing the auditor involvement requirement for Smallcap companies will cause firms other than the Big Four to have very few internal control audit clients--only a small portion of those they handle now. The Committee's draft report effectively removes the auditor from the internal control assessment process at 80% of our public companies (not considering the "recapture" of the revenue limits). This will create a large, unintended competitive advantage to the Big Four and foster further consolidation in the audit profession.

Today, eight U. S. firms each audit more than 100 public companies and have the broad, relevant experience to audit Larger Public Companies, since all eight perform sufficient internal control audits to credentialize their expertise. If the recommendation contained in the draft report is enacted, the "smaller four" firms will see a major (we believe more than 75%) reduction in the internal control audits they are involved in. In effect, those firms will be much more severely challenged to demonstrate their ability to audit Larger Public Companies--providing a bigger competitive advantage to the Big Four. Ironically, many of the "smaller four's" most sophisticated and growth oriented Smallcap clients will also find themselves more attracted to the Big Four, since those companies hope to be Larger Public Companies soon.

Over the past several years, there has been a steady migration of companies selecting auditors other than the Big Four, due to the natural functioning of the market for audit services. The migration has occurred for a wide range of reasons, from client selection decisions by audit firms to cost and service considerations by the companies. Most of the companies selecting firms other than the Big Four have realized cost savings. As those who are involved in the markets for audit services on a daily basis know, there are significant differences in the ultimate fee level resulting from an auditor selection process which includes only the Big Four compared to a process that also includes other capable firms. This is quite an irony. A proposal in the final report designed to reduce cost will effectively reduce the very market competition that many companies are using today to control their audit costs.

Sincerely,

Mark Hildebrand
CEO, Crowe Chizek and Company LLC