October 10, 2006
Securities and Exchange Commission
Attn: Nancy M. Morris, Secretary
100 F Street, NE
Washington, DC 20549-1090

Dear Ms. Morris:

RE: SECURITIES AND EXCHANGE COMMISSION'S CONCEPT RELEASE CONCERNING MANAGEMENT'S REPORTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSE BY ACL SERVICES LTD

ACL's response to the Concept Release focuses on one specific question contained within the SEC's document; namely, #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)?"

Our response is based on the experience ACL has had working with the 10,800 customer organizations who use our technologies to evaluate internal controls as part of their SOX compliance procedures, as well as part of their overall internal and external audit processes. These customers include all of the Big 4 accounting and auditing firms, internal audit departments of 71% of the Fortune 500 and many U.S. State and Federal government departments.

The primary software technologies that are used in support of internal controls evaluation fall into 3 broad categories:

1. Management and documentation of compliance and internal control evaluation processes

   - Risk and controls identification

   - Internal controls and testing and assessment procedures

2. Analysis and management of information systems controls

   - Analysis and management of systems access and authorizations tables to determine effective design of Segregation for Duties

   - Analysis of system security and control settings

3. Monitoring and audit of financial transactions

   - Continuous monitoring of financial transactions to test compliance with internal controls

   - Identification and quantification of transactions that fail internal control test

This response focuses primarily on the 3rd category of software, and, in particular, the use of technology in support of continuous monitoring and continuous auditing of internal controls. All 3 categories of technology allow companies to improve the efficiency and effectiveness of the process of evaluating internal controls. However, it is the view of ACL and of an increasing number of organizations that are using technology to implement continuous monitoring and auditing that it is the 3rd category that provides the greatest benefit to companies from their SOX compliance efforts.

Continuous Monitoring and Continuous Auditing

Continuous monitoring and auditing are topics that have been discussed by the audit and controls professions since the 1980's. In recent years, technology has advanced sufficiently to make them a practical and effective solution to the need to perform ongoing assessments of the effectiveness of internal controls. Professional publications such as the Institute of Internal Auditors' General Technology Audit Guide #3 on "Continuous Auditing: Implication for Assurance, Monitoring and Risk Assessment" have done much to generate awareness of the benefits and practical implementation issues of continuous monitoring and auditing.

The Center for Continuous Auditing (based at Rutger's University Business School) has focused a combination of academic, professional association, Big 4 and technology leaders on these topics. The Comptroller General of the United States, who chairs the Center's Advisory Board, has stated his views on the importance of technology to the compliance process in response to a Chief Audit Executive survey on Continuous Monitoring and Auditing.

> "I am pleased to see that the audit professionals surveyed [2005 CAE Survey] strongly endorsed the value of continuous monitoring and auditing to support ongoing Sarbanes-Oxley compliance. Until there is mainstream adoption of these best practices, companies will continue to experience challenges managing their compliance processes. Technologies that automate and monitor controls - on an ongoing basis - will be critical for achieving true success in the future."
>
> Honorable David M. Walker
> Comptroller General of the United States and
> Chair of the Center for Continuous Auditing Advisory Board

The principles of continuous monitoring are simple:

- Use software to independently test all financial transactions to determine if they comply with internal controls – (determined according to the COSO Internal Controls Framework or other applicable controls frameworks)
- Identify and quantify transactions that appear not to comply
- Investigate and remediate control deficiencies identified

The advantages of this approach are:

- Substantial reduction in time required to test and assess internal controls
- Immediate notification of control deficiencies to both management and audit
- Immediate quantification of impact of control deficiencies
- Timely correction of control deficiencies that impact company revenues and profitability
- Management's responsibility for maintaining effective internal controls is emphasized by providing management with ongoing visibility into the effectiveness of internal controls

> "Continuous Monitoring is a process that management puts in place to ensure that its policies, procedures and business processes are operating effectively. Management identifies critical control points and implements automated tests to determine if these controls are working properly. The continuous monitoring process typically involves the automated testing of all transactions and system activities, within a given business process area, against a suite of control rules. The monitoring typically is put in place on a daily, weekly, or monthly basis, depending on the nature of the underlying business cycle. Depending on the specific control rule and the related test and threshold parameters, certain transactions are flagged as control exceptions and management is notified.... It is management's responsibility to respond to the monitoring alerts and notifications and to remediate any controls deficiencies and correct defective transactions"
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> IIA General Technology Audit Guide # 3: Continuous Auditing: Implications for Assurance, Monitoring and Risk Assessment – Page 8
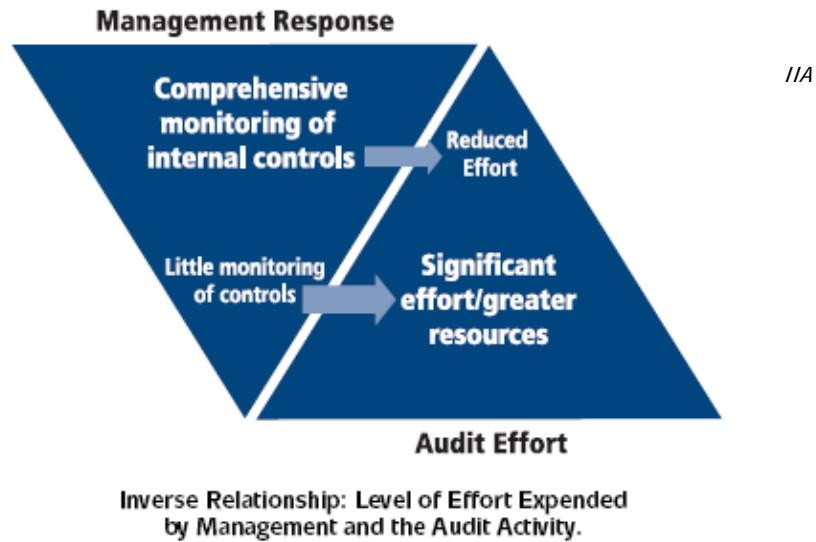
The techniques and technologies employed in Continuous Auditing and Continuous Monitoring are usually similar. The primary difference is in ownership of the processes. According to The IIA's GTAG#3 "The key to continuous monitoring is that the process should be owned and performed by management, as part of its responsibility to implement and maintain effective control systems. Since management is responsible for internal controls, it should have a means to determine, on an ongoing basis, whether the controls are operating as designed. By being able to identify and correct control systems on a timely basis, the overall control system can be improved. A typical additional benefit to the organization is that instances of error and fraud are significantly reduced, operational efficiency is enhanced, and bottom-line results are improved through a combination of cost savings and a reduction in overpayments and revenue leakage."

Continuous Auditing is clearly the responsibility of the auditor and, again according to the IIA GTAG,

> "Continuous auditing is a method used to perform control and risk assessments automatically on a frequent basis. Technology is key to enabling such an approach. Continuous auditing changes the audit paradigm from periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions"
>
> IIA General Technology Audit Guide # 3: Continuous Auditing: Implications for Assurance, Monitoring and Risk Assessment – Page1

The value of continuous auditing to the auditor is that "There is an inverse relationship between the adequacy of management's monitoring and risk management activities and the extent to which auditors must perform detailed testing of controls and assessments of risk. The audit activity's approach to, and amount of, continuous auditing depends on the extent to which management has implemented continuous monitoring"

Management Response

Comprehensive monitoring of internal controls → Reduced Effort

IIA

Little monitoring of controls → Significant effort/greater resources

Audit Effort

Inverse Relationship: Level of Effort Expended by Management and the Audit Activity.

General Technology Audit Guide # 3: Continuous Auditing: Implications for Assurance, Monitoring and Risk Assessment - Page 9

The benefit of the integrated approach to Continuous Monitoring and Auditing is that it can significantly reduce the efforts, and associated costs, required by audit, both internal and external, to assess the effectiveness of control systems and thus frees up audit resources to focus on other critical and value-added activities. A key issue in practice for an effective integrated approach is that audit must be able to place reliance on the integrity of the continuous monitoring processes and technologies themselves, without having to spend considerable efforts in tests and assessments. This means that issues such as security, comprehensive logging and control totaling are critical for effective use of technology for continuous monitoring.

Software Technology Advancements

Although the fundamental technologies applied in the continuous monitoring and auditing processes have been in use for many years by internal and external auditors, the impact of SOX has been to drive major improvements in their functionality and ease-of-use.

The persistent challenges to effective implementation of continuous monitoring and auditing that have now been overcome by advances in software technology include:

- Accessing complex data from disparate systems
- Processing large volumes of transactions with minimal impact on operational performance
- Managing test parameters to reduce false positives
- Reporting results in a multi-level dashboard approach

To date, much of the emphasis of continuous monitoring has been placed on testing the detail of specific transactions against specific internal control rules, often at the individual account level. However, as technologies become more sophisticated, it is expected that effective controls monitoring will take place at increasingly higher levels. For example, monitoring of

trends in operational metrics can indicate whether there are issues around entity level controls.

Audit profession's response to Continuous Auditing and Continuous Monitoring

In Spring 2006, The Institute of Internal Auditors (The IIA) and ACL conducted a survey of Chief Audit Executives from organizations with revenues of more than $100 million. Titled, *The Evolving Role of Internal Audit*, 858 CAE's from around the world responded to the survey. Of those respondents, 51% of the survey participants were from North America and 30% of the respondents were from organizations with revenues of more than $1 billion. One section of the survey focused on continuous monitoring and continuous auditing. The summary of results is as follows:

Organizations that currently employ a continuous auditing approach within their audit plan and processes:

- 9% in all major business processes

- 27% in select business processes

- 38% intend to implement

Organizations' plans to implement continuous monitoring technology:

- 11% already in place

- 22% have plans to implement this year

Respondents that agreed that management/business process owners should implement continuous controls monitoring technology:
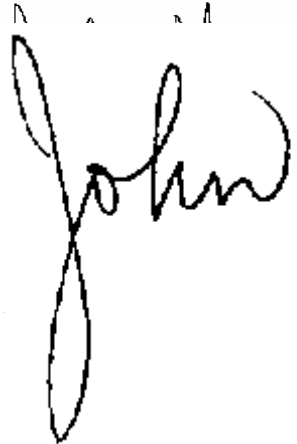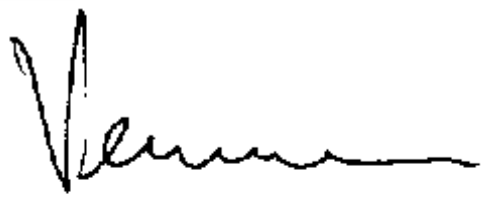
- 91% agreed

- 6% disagreed

- 3% unsure

A recently published survey and study by PricewaterhouseCoopers identified that 81% of companies either had a continuous auditing and monitoring process in place or were planning to develop one. The same survey indicated that from 2005 to 2006 the use of both techniques increased from 35% to 50%. This trend is understandable, based on the experiences of many of the organizations with whom ACL has worked to implement continuous monitoring systems. As one organization put it, "of all the expenses we have incurred in SOX compliance, the implementation of continuous monitoring is the only one proven to generate a positive return on our compliance efforts".

The trend to implement technology for continuous monitoring and auditing is clearly growing, driven in significant part by SOX compliance requirements, with an increasingly large number of success stories available. As with any relatively new approach, there is a wide diversity in both what companies and professional organizations understand by the terms continuous monitoring and auditing, as well as how they are implementing the techniques. Although publications such as The IIA's Global Technology Audit Guide have helped to provide awareness and guidance on the topics, there is still a need for more direction and consistency of understanding to be provided, preferably by a range of professional and regulatory bodies.

We have many examples of clients who are successfully applying continuous monitoring and auditing technology in their businesses today – to support both process optimization and

improved SOX compliance. As a next step to this submission, we would be pleased to arrange meetings between appropriate representatives from the SEC and some of our clients who are very willing to share how this best practice is supporting their compliance efforts.

As with our work together with the IIA and the Centre for Continuous Auditing, we stand at the ready to participate in and provide whatever support and input the SEC wishes, to assist with efforts to further clarify and define appropriate and sufficient technology investment in

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