Group Accounting and Reporting

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Nancy M Morris
Secretary
Securities & Exchange Commission
100 F Street, NE
Washington, DC 20459-1090

Dear Ms Morris

**File number S7-24-06**

We would like to comment on the proposed interpretive guidance issued by the Securities and Exchange Commission (the "**Commission**") concerning management's report on internal control over financial reporting. We are encouraged by the actions of the Commission in seeking to restore an appropriate balance to the work required of management and auditors pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the associated commission rules.

While the objective of Section 404 (to improve internal control and enhance standards of corporate governance) is undisputed, we believe it is now widely accepted that the cost of compliance with Section 404 has far exceeded the incremental benefits gained by shareholders. The cost of Section 404 borne by shareholders is now quoted in multiples of billions of dollars; however the benefits derived elude reliable quantification. We believe that the guidance proposed by the Commission has the potential to significantly restore the balance of cost and benefit. As an indication, our work effort for 2007 (our first year of certification) is approximately 30% lower than that undertaken in 2006 (in which we completed much of the SOX404 exercise on a voluntary basis). This reduction was primarily achieved by re-setting materiality thresholds. On applying the guidance proposed by the Commission, we expect a further reduction of similar magnitude. This means that our on-going cost of compliance should be just 40% of the work effort created under the current guidance of the PCAOB. We therefore believe it is imperative that the Commission's proposals, together with those of the PCAOB, are implemented as a matter of urgency.

Specific comments we have with respect to the proposals are as follows:

1. We support the overall thrust of the guidance proposed by the Commission. We have compared the guidance with our own methodology and believe they are closely aligned other than for differences caused by the influence of the current standards of the PCAOB. Accordingly, we believe the guidance will be a positive step in rationalising the work effort which both achieves compliance with Section 404 and delivers an outcome of more relevance to the needs of management and shareholders.

2. There are a number of areas in the proposed guidance which we find could be improved, in that they add little to those areas of Section 404 compliance which are problematic. In particular, we

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do not find the guidance dealing with multi-location environments to be particularly helpful in resolving their specific complexities. In addition, we do not consider the guidance dealing with the process of evaluating results to be of significant practical assistance. This is an area which requires the exercise of significant judgement such that meaningful guidance is probably difficult to develop. Both of these aspects of guidance would benefit by the inclusion of illustrative examples which may better convey the expectations of the Commission.

3. One aspect of the guidance we find confusing is the relationship between the guidance on risk focus and the guidance on evidence. With respect to risk, the Commission's guidance promotes the concept of management focussing on the most significant risks that could (with reasonable possibility) lead to a material misstatement to the financial statements. However, in the guidance on evidence, the Commission identifies different types of evidence that may be relied upon according to the degree of risk perceived. This suggests that both low and high rated risks are in the scope of the assessment, contrary to the guidance on a top-down, risk based approach.

4. In conjunction with its guidance for management, the Commission proposes only one rule amendment which will recognise the Commission's guidance as one of many different ways to conduct an evaluation. It is apparent to us that application of the guidance is not dependent on that rule change or on the changes to auditing standards proposed by the PCAOB. This would suggest that the proposed guidance is a fair reflection of the Commission's current views as to how management could meet the requirements of Section 404 today. We believe the Commission should make it clear whether the views it has expressed are eligible for immediate implementation. This is time critical, as many companies will be keen to implement a more relevant approach than what has been imposed under the influence of PBAOB auditing standards.

5. The other proposed rule amendment will remove the requirement of the auditor to express an opinion on the adequacy of management's assessment of internal control over financial reporting. There is a general expectation that this change in scope should alleviate some of the excess audit cost. However, the discussion accompanying that proposed rule change creates doubt as to whether that will be the case. In particular, it is implied that the direct opinion of the auditor will effectively include consideration of the adequacy of management's own assessment, in which case the auditor is likely to insist that the work required to support both opinions remains in scope, even though only one opinion is expressed. Initial discussions we have held with our auditors confirms this, as the Group's lead engagement team have indicated that the changes proposed by the Commission are not expected to impact the scope of work they believe necessary to reach their opinion.

6. We consider the PCAOB's proposed changes to its auditing standards to be pervasive and consistent with the guidance of the Commission. We remain concerned, however, that the incentive for the auditing profession will be to maintain their existing level of work, in fear of regulatory risk and on the premise that their control work is now required to maintain an alleged reduction in substantive procedures. However, our experience is that there has been a very minor shift towards true reliance on internal control work when determining the nature and extent of substantive procedures. For these reasons, we believe the Commission and the PCAOB will need to implement a comprehensive education program to ensure the auditing profession (all the way down to individual practitioner) are given the necessary confidence to modify their internal control procedures in the light of the proposed amendments.

7. We believe that the Commission has chosen to remove the wrong audit opinion from the requirements of Section 404. We believe it would be more appropriate for the auditor to express an opinion as to whether management has developed and implemented an appropriate program for assessing its own control environment, without the auditor being required to express an opinion on the outcome of that assessment. That is, the auditor should not be required to express their own opinion about the effectiveness of internal controls over financial reporting. This approach would involve the auditor continuing to test the operation of internal controls for the purpose of determining the nature and extent of substantive audit procedures relevant to the financial statement audit, but without having rely on that work for the purpose of expressing a direct opinion on the control environment.

8. A major factor contributing to the cost of Section 404 is the need for the work to support a conclusion about the design and operating effectiveness of internal controls at year end. This requirement forces a concentration of work towards year end which creates significant logistical problems for management, internal audit and external audit, and causes a major clash against tight year end close timetables. While the proposed guidance from the Commission and proposed changes to audit standards by the PCAOB may help to alleviate these issues, the root cause of the problem has not been addressed, being the year-end point in time reference for the assessment. In reality, a control environment operates throughout the year, and some controls operate at different times of the year depending on their nature and purpose. A conclusion referenced at a single point in time is therefore artificial and meaningless to management. We believe it would be more appropriate if the assessment was not referenced to either a point in time or for the entire financial period. Rather, the assessment should be designed to consider the design and operation of controls relevant to a financial year. The opinion would state whether or not controls that were in operation during the course of the financial year were found to be adequate at the time they were most recently tested. An appropriate program of periodic / rotational testing would support the conclusion and ensure the opinion issued each year remained relevant.

We trust that our comments will be helpful to the Commission in finalising its guidance for management. We believe the guidance overall is a significant step forward in resolving the failures of Section 404, however as indicated in our comments, we have reservations about some aspects of the guidance associated rule amendments and believe that there remains further opportunity to address the imbalance between the costs and benefits of Section 404.

Yours sincerely,

**Nigel Chadwick**
Group Financial Controller