Re: File Number S7-24-06

January 26, 2007

Dear Commissioners,

I welcome this guidance like a breath of fresh air. Since the PCAOB issued Audit Standard #2 in June 2004 many of us in management have used AS2 as the only documented guidance on the topic of SOX. I even made public presentations at several professional gatherings sponsored by the likes of FEI and Big 4 CPA firms that management should take the PCAOB document and replace the word 'auditor' with 'management'. I subscribed to the theory that if the external auditors were going to be required to perform a procedure, management should have already done so to reduce the potential for surprises.

For the past several years the ball has been in the auditor's court allowing them to push and sometimes 'bully' management into revising their documentation or modify their testing procedures. This was to comply with a template developed by a group in some ivory tower that could somehow determine what objectives and controls every public company should have. Junior auditors, with little experience in SOX (or auditing for that matter) applied this template with rigor creating lists of 'deficiencies' several pages long. The lists even included column headings such as 'Control Objective Documented by Management' and 'Control Objective Required to be Met' insinuating that the auditors, armed with their nation-wide, one-size-fits-all template, had the final say on which objectives were required in management's control matrix.

Now, before I get crucified by all the external auditors (I really was one long ago), I realize that much of the pressure on audit firms is applied from other sources. The first source of pressure is from the demise of Arthur Anderson. All audit partners around the world watched that case very closely and from that lesson they learned to take no risk. Therefore, they are loathe to leave any stone unturned in their SOX procedures today. The second source of pressure is from the PCAOB itself, who, while issuing public comments that auditors and management have perhaps gone overboard in their testing procedures, are simultaneously issuing reports on how poor a job the Big 4 are doing in their own SOX documentation. I had firsthand experience with this when the PCAOB elected to review the audit of our company by our external auditors. Our audit partner described experiences they had from the PCAOB auditors and I began to understand why many auditors are going overboard!

Finally, perhaps, the ball has been placed back in management's court with guidance such as, "…management can design controls and conduct an evaluation that is tailored to its company's individual circumstances (Page 16)" and "the proposed guidance allows for management and the auditor to have different testing approaches (Page 18)." In general, I believe management can now begin to regain some ownership of their destiny without unreasonable cost. However, this ownership will present new challenges to be resolved.

First of all, it will allow management to perform a risk assessment through their own spectacles and that assessment may differ from the one developed by the external auditors. This difference will need to be reconciled, hopefully early in the year. Based on their risk assessment, management now will have the freedom to reduce the number of controls to those which they believe satisfy the objectives of ICFR for their company (given its size, industry and complexity).

That being said, I am certain that they will only succeed in convincing their external auditors that this reduced set of controls is sufficient if they have adequately documented their risk assessment and conclusions. Knowing our audit partner, she will not let us sail by without producing a well-developed, rational analysis of financial risk and documenting where reasonable assumptions where made and why. There is still no ‘correct’ answer to this analysis so there will need to be more discussion between management and the external auditors but now, following this guidance, at least we are starting as equals in this discussion.

And at some point, the auditors from the PCAOB will have to grapple with the same risk assessment as they determine whether the audit firms have performed adequate procedures for the conclusion they reached. Again, without careful consideration of the particular risks facing a company, how can the PCAOB auditors determine that more work was required by their external auditors?

Secondly, if management elects to use one testing approach and the external auditors select another and the results of testing produce differing conclusions, how is that difference to be disclosed? As management, I would say that our controls are without material weakness and therefore, effective. My external auditors might arrive at a different conclusion based on their testing approach. How would the SEC expect management to disclose these differing opinions in the annual report on internal controls?

Finally, I welcome the Commissioners concern for small companies and offer some additional food for thought. In 2005 our company spent more than 1.5% of total revenue on fees to our external auditors and in 2006, while our revenue grew by approximately 6%, we still had auditor fees of just under 2% of revenue. Based on current projections for 2007 we see some decrease but are still paying more than 1% of revenue to our external auditors. The Commissioners should carefully consider the long-term impact such a burden will be on small public companies. Last time I checked, the percentage of large accelerated filers is small. Therefore, the added burden of SOX costs on the larger portion of American businesses is tremendous and will clearly affect our national economy.

This guidance is a good step in the right direction allowing management in smaller companies to have limited documentation (Page 38) and obtaining evidence about the effective operation of controls from on-going monitoring activities (Page 30). But the next step will be to ”call off the dogs.” Once the PCAOB auditors begin to understand the risk assessment we prepare and understand why less direct testing is required in certain areas of our business and realize that our external auditors are in agreement with us, they will realize that no further evidence or documentation is required by our external auditors to conclude that our internal controls are effective. In the same vein as your guidance provides, there is no one-size-fits-all for the documentation by external auditors.

Respectfully submitted,

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