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Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Reference: File Number 4-497

Dear Mr. Katz:

Alamo Group is a "small-cap" leader in the design, manufacture, distribution and service of high quality equipment for right-of-way maintenance and agriculture. Our products include tractor-mounted mowing and other vegetation maintenance equipment, street sweepers, agricultural implements and related after market parts and services. The Company, founded in 1969, has over 1,900 employees and operates fourteen plants in North America and Europe as of December 2004. The corporate offices of Alamo Group Inc. are located in Seguin, Texas and the headquarters for the Company's European operations are located in Salford Priors, England.

A "big four" firm serves as our external auditor, and I directed our recently completed Section 404 internal control assessment. By way of background, I have roughly 30 years experience in a variety of financial management positions, including a number of years as an audit partner in a former "big eight" accounting firm. In that capacity I specialized in advising audit teams in a multi-state region on control considerations in complex accounting systems, and further served as the firm's representative on various committees of the AICPA, where I had the opportunity to participate in the development of audit guides.

From that perspective I offer the following observations:

- The work to comply with the PCAOB's interpretation of SOX 404 included unnecessary and redundant testing. Our external auditors advised that our testing should include "as much or more" work then they intended to perform as part of their independent assessment of internal controls. Internal and external audit teams visited the same locations at essentially the same time to perform essentially the same tests, putting a severe strain on our operating people. In some cases there were more auditors on-site then there were people in the accounting department.

- We conservatively estimate the SOX 404 effort required over 6,000 hours of management time and several hundred thousand dollars of internal cost. The effort required that we redirect our focus from process improvement to process documentation. Instead of working to get better, we worked to assemble documentation.

- The need for documentation seemed excessive and driven more by defensive posturing than the need to improve our business. A great deal of time and effort went into reminding people to initial reviewed reports, prepare narrative descriptions that were not needed internally, etc.

Our external auditors chose to evaluate the effectiveness of controls using a rule that suggested “if it was not documented, it did not happen.” We were mindful of guidance in the COSO framework, Executive Summary, Chapter 6 (Monitoring):

> Many controls are informal and undocumented, yet are regularly performed and highly effective. These controls may be tested in the same ways documented controls are. The fact that controls are not documented does not mean that an internal control system is not effective, or that it cannot be evaluated.

- Certain risks were addressed and controls improved on an accelerated and perhaps unwarranted schedule. Management decisions concerning risk were supplanted by decisions concerning regulatory requirements.

- Our external audit fees increased more than 60%, and our relationship with our external audit firm was adversely affected. It appeared that the need to observe strict independence rules detracted from the beneficial, objective, advisory relationship we previously enjoyed. The external audit process was observed to be more “secretive”; to the point where it was not abundantly clear what was done or what benefits accrued for the substantial increase in fees.

- We believe our costs of compliance will not change appreciably in the future. New acquisitions, system changes, software releases and process improvements will require substantial change to existing documentation and testing plans, all of which have been compiled at a detailed level.

- The frustration level with the entire process is exceptionally high. Current estimates of implementation costs for all issuers suggest they may be as much as 20 times those estimated in 2003. Management attention has been diverted, expenses have increased, limited benefits have been realized, the bonus pool has been reduced, and reports circulate about the substantial increase in revenues enjoyed by the big audit firms. There is a feeling that the “good guys” got punished while those that contributed to the “crisis in confidence” got rewarded.

In sum, our experience with implementing existing Section 404 requirements suggests a very badly skewed cost/benefit relationship. We urge the Commission to consider these changes:

A. Eliminate redundant assessments. The Congress passed an Act that requires in its Section 404 that “each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, <u>the assessment made by the management of the issuer</u>” (emphasis added). The PCAOB then elected to require each firm to perform its own, independent assessment of internal control as a condition precedent to reporting on management’s assessment. By analogy, it is as if the Congress passed a law requiring all children to do their homework, and further requiring all parents to ensure that homework gets done. The PCAOB then suggested that no parent could determine if the homework was done unless the parents first did all the homework themselves. We believe requirements should be better aligned with Congressional intent by eliminating the need for each accounting firm to perform a second, independent, redundant assessment.

B. Define broad “principle based” requirements for management’s assessment. At present there is very little guidance concerning what is required of management. Requirements are defined for the accounting firms and they in effect “back-door” management requirements. In the minds of some restraint increases risk, and the resulting lack of restraint coupled with the redundant assessment referenced above has the unintended consequence of substantial over-auditing and increased expense.

C. **Define broad "principle based" guidance for a public accounting firm's report on management's assessment.** The investing public needs assurance that management's assessment was reasonably comprehensive and substantive. The accounting firms need guidance on how far they should reasonably be expected to go to make that determination. Present guidance suggesting they "do all the homework themselves" raises the bar too high.

D. **Focus on key controls.** Problems at Enron, WorldCom, et al seem rooted in high-level ethical lapses, collusion and management override of existing control procedures. Very broad "general" controls like strong ethical standards, effective independent oversight and review, and appropriate and readily available lines of communication apply to these very broad problems. Severe punishment for those who fail to honor the public trust may provide a deterrent. The low-level, very detailed procedures addressed in the recent SOX 404 assessment are considerably less effective in preventing or detecting high-level problems.

E. **Permit testing over several years.** While somewhat oversimplified, current requirements essentially require all testing to be reperformed every year, even though many if not most of the procedures may have been repeatedly tested and found effective. Such requirements increase cost with little or no benefit. Management, with approval from the Audit Committee of the Board, should be permitted to define a testing plan that addresses key controls more frequently than other procedures that involve less risk. Key controls for example might be tested annually, while other procedures might be retested over a two to five-year period.

F. **Focus on fundamental auditing.** Problems at Enron, WorldCom, et al also seemed related to audit failures. "Where were the auditors" is a recurring theme, and further analysis of these problems will undoubtedly yield more insight. Until then however, there is the nagging suspicion that these audit failures, if any, were due in part to a trend that has been developing for many years. That trend is toward more and more highly detailed, complex rules of disclosure, which takes more and more time and attention from the more experienced members of every audit team. That fundamental part of a financial audit that goes to ensuring management's information is representative of actual underlying economic activity is largely handled by less experienced auditors. Limited emphasis appears placed on understanding the flow of transactions and the basic structure of internal accounting control, in part perhaps due to accounting systems themselves being more technically challenging and less prone to analysis by less experienced auditors. More involvement of experienced personnel in fundamental financial auditing may be needed.

We do not see a need to change the stated requirements of the actual Sarbanes-Oxley Act of 2002. In our view, what is needed is a substantial rethinking and revision of the related interpretations and requirements promulgated by the PCAOB.

Thank you for your consideration.

Respectfully submitted,
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