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Securities and Exchange Commission
100 F Street NE
Washington, DC 20006-2803

Dear Roundtable Members:

Thank you for the opportunity to comment on experience to date with SOX 404 compliance efforts. I am writing as an individual to express my thoughts on the matter. I have worked in internal audit for approximately 13 years with more than 10 years as a director of internal audit of publicly traded and private companies ranging in revenue from \$200 million to \$1.5 billion in retail, manufacturing and distribution industries. I am a Certified Public Accountant and will shortly be a Certified Information Systems Auditor. I have worked on SOX 404 compliance since early in 2003 and it seems that SOX related work is all that I am doing. I desire to return to a fuller set of traditional internal audit work. Rather than waiting for somebody else to tell me how to make SOX compliance more efficient and effective I have taken the initiative to redesign my company's SOX compliance program.

Excluding auditor fees, my company spent \$4-5 million direct expense on year 1 compliance, approximately \$1.5 million direct expense in year 2 and using my new SOX compliance approach I expect to spend approximately \$300,000 in our 3rd year of compliance. This is hardly an onerous burden for a company with \$1.5 billion in revenue.

My advice to companies is to quit complaining about SOX 404 and take matters into your own hands, as management of the company, and address your risks to financial statement errors. Don't ask your public accountants to tell you what to do or to ask their permission to change your compliance efforts. Management understands the risks of their company better than anybody else does. Use that knowledge and direct your SOX compliance efforts to address those risks. If any company is still testing the entry of vendor invoices into the accounts payable system because they think that is a key control to prevent a material misstatement of their financial statements they have nobody to blame but themselves. If the partner of their audit firms thinks vendor invoice entry is a key control they should request a new partner and if no other partner at the firm comes to a different conclusion then they should hire a new audit firm. After all, how many restatements have been caused by issues with vendor invoice entry into accounts payable or any other routine transaction for that matter?

My new approach to SOX 404 compliance is simple, effective and consistent with the guidance already issued on SOX 404 and with the approach that audit firms take to the

audit of financial statements. The work performed by management is therefore able to be relied upon to a heavy extent by the external auditors in their integrated audit approach. There are 4 basic areas of focus:

- Strong entity level controls with frequent communications from the highest levels of management that ethical business practices and accurate financial reporting are expected and essential
- Strong general computer controls over the applications in which the business transactions are recorded and from which the financial statements will be generated
- With strong general computer controls, rely upon information system application controls to ensure routine transactions are recorded accurately, doing away entirely with manual testing of routine transactions
- Focused effort on the application of GAAP, having a structured financial statement closing process and applying issued guidance on the preparation of the Forms 10Q and 10K.

This approach removes people in operational roles from being impacted by SOX 404 compliance, allowing them to focus on growing their businesses. The burden of compliance rests with accountants and IT personnel in charge of the information systems. The controls I use are nothing more than what accountants and IT personnel should be doing in the performance of their jobs every day, meaning there truly is no incremental cost of SOX 404 compliance. My internal audit department performs the accounting control testing, which internal audit departments have historically performed, so there is no incremental cost in this effort. The direct expense of \$300,000 that I intend to spend this year is related to the use of top notch IT auditors to test the general computer controls, a specialty area that I do not as of now have the internal resources to perform.

Companies need accountants who conduct themselves with professionalism and integrity, accountants who have the knowledge and experience to apply GAAP and SEC reporting requirements. Accurate financial statements are the responsibility of the accountants, not A/P clerks and guys on the receiving dock checking in raw materials. SOX 404 compliance efforts focused on accountants and their work will ensure risks to financial statements are addressed. Financial statement errors may still be made due to the complexity of or differing interpretations of GAAP but if discussions are held with one's auditors regarding the application of new GAAP then this risk can also be addressed.

My message is simple and direct. There is enough guidance already provided to comply with SOX 404. Management needs to lead by performing a top down, risk based assessment of control risks that could lead to a significant or material error in the financial statements. Management needs to communicate to their auditor why they are taking the approach being used and demonstrate how the risks are being addressed. By focusing on entity level controls, general computer controls and financial statement closing and reporting controls the objectives of SOX 404 can be accomplished without spending an undo amount of money. Compliance is not onerous and should not be a hurdle to being listed on the public exchanges. Public accounting firms need to get with

the program and, as I mentioned before, if a particular partner is “down in the weeds” on transaction testing get him/her to focus on real risks instead. If they can’t then get a new partner or audit firm. My point is blunt but in order to cut through the noise surrounding SOX 404 it is necessary to be so.

In summary, improved internal controls over financial reporting were needed in many companies as evidenced by the improvements made over the last two years in their closing and reporting processes. The cost to achieve these improvements was too high due to the focus on immaterial transaction based controls. That is water under the bridge. Companies need to focus on real risks to the accuracy of their financial statements and by doing so they will reduce their cost of compliance with SOX 404 and further control their financial reporting process. Management cannot wait for regulators to provide more guidance, there is enough already, and management needs to take control of their SOX 404 compliance rather than asking their public accountants for permission. Do the job right and the public accountants will be satisfied.

Respectfully,

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