From: [Redacted]
Sent: Tuesday, November 11, 2003 11:22 AM
To: Comments
Subject: Docket #008, Internal Controls

*** PLEASE REMOVE NAME FROM POSTING IN PUBLIC COMMENTS IF POSSIBLE ***

Dear Sirs:

As controller for a large public company who is principally responsible for our organizations assessment of internal controls, I read your proposed rules with great interest. Finally I could refer to a set of rules that truly represented the intent of the standard setting body for some guidance. Your rules provide tremendous clarity and also a significant amount of ambiguity. Although at times seemingly very clear, they leave many things open to interpretation.

Our company has an executive steering committee with representatives from our internal audit department, IT department, accounting department, and executive offices charged with overseeing our organizations response to the requirements of Section 404 of the Sarbanes-Oxley Act. Our external auditor is represented on this committee and has played a key role in establishing our agenda based on their interpretations of the pending rules. The committee meets periodically to define the requirements necessary for our company to become compliant.

Our external auditor has provided us with some rudimentary tools to help enable us to document our controls throughout our organization. They have indicated that we need to be able to document these controls to a standard that they would find "acceptable." They have refused to publicly provide specific controls that they think may be important. They have not allowed us to review their internal documentation (process narratives) related to internal controls from prior audits. However, they have actively sought to participate in "assisting" our team in "assessing" and "documenting" our controls. They have been careful to say they cannot help us "design" controls but have shown us that the SEC's own rules clearly state that they can and should assist us in "assessing, evaluating, and improving" our internal controls.

Several of our internal team members have expressed dismay at the level and quality of the work being performed by the staff and seniors whom the external auditors have sent to "assist" us. Our staff has noticed that these individuals have very limited business experience, they lack an appreciation of our rather complex information systems environment, and they continually appear to be engaged in an exercise of "cutting and pasting" comments from prior year work papers as they complete templates, forms, and checklists that were all part of their existing audit methodology.

Needless to say our team is frustrated with both the quality and value that our external auditors have brought to the table. The team has brought forth this issue to several members of our executive team – but unfortunately our executives (myself included) are very reluctant to take an approach that is not consistent with our external auditors requirements. We have been reminded, at the executive steering committee meetings, that it is "important" to provide sufficient and extensive documentation in order to meet the requirements (some might say "demands") of our auditors.

Our organization is spending thousands of hours on this "documentation" initiative. We are going through literally hundreds of different business processes and painstakingly recording control points throughout our system. We are identifying controls that will satisfy the external auditors requirements (many of which they have covertly provided to us in generic templates and other "off the record" discussions).

Recently we completed review of one major business process, or "cycle", and asked the auditors to review the quality and completeness of this one major cycle. The feedback we received was very favorable. They did suggest that we would have to continue to perform the same evaluation and documentation for several of our other business units and subsidiaries. Overall, they were "pleased" with the level of detail and completeness of our efforts. Remember, they were very involved in helping us define our approach and execute the approach.

We also asked some internal business unit controllers to review the same documentation. We asked them if the information was complete, accurate, and of a nature to sufficiently identify significant control points that might likely prevent our financial reporting from being substantially inaccurate. The internal feedback we received was dramatically different then the feedback we received from our auditors. Our business unit controllers pointed out several flaws in the documentation whereby our internal controls could easily be undermined. They pointed out that several of the "key controls" that our auditors had helped us identify were meaningless. Surprisingly their standards for quality and completeness are much higher then our external auditors.

Having had the opportunity to step back and critically evaluate the work that they feel is "acceptable" I have been troubled by one simple question. Would this evaluation have helped prevent another Enron or HealthSouth? The answer is a simple NO. This troubles me greatly because our company, like many other companies, is going to spend several million dollars complying with these requirements and quite frankly they provide little or no value to our organization. More importantly, these efforts do not address the needs they were intended to assist in addressing.

This has to be one of the single worst regulatory initiatives imposed on business. It does not address the problem it purports to fix. It does not protect investors. If anything it provides them with a false sense of security and misleads them. The fact is much of what we did the auditors should do as part of their normal audit procedures. How an auditor cannot evaluate internal controls, as part of a financial statement auditor is incomprehensible.

It seems to me that the root cause of many of the major corporate failures that led to this legislation is in fact simply an audit failure. Audit firms have not performed appropriate quality audits. Auditors have repeatedly compromised their integrity and independence in pursuit of maintaining a relationship with their clients that enabled them to sell other highly profitable services.

As a result of these transgressions we have witnessed a few firms abuse the process. The auditors became too predictable and too concerned with selling tax shelters and internal audit services and less concerned with the audits. They admittedly used the audit as a loss leader for other service offerings.

Rather then impose strict rules on companies that provide no meaningful or purgative value to investors, I would suggest that you focus on the following critical reforms:

1) Require auditors to provide quality audits. Your inspectors should

closely review their audits and the auditors should be required to implement stringent quality improvements in their audit methods. The problem is not ineffective controls – the problem is ineffective audits.

2) Require audit firms of public companies to divest themselves of their tax, internal audit, and other consulting like services. These services could easily be provided by a separate entity. Audit firms that provide no other service except for audits would likely provide higher quality audits. They would not encounter the obvious independence and conflicts that are customary in today's environment.

3) Consider imposing a much less intrusive requirement on corporate executives relative to internal controls. I would suggest that you work with industry (instead of the public accounting profession) to develop an appropriate standard that would be reasonable to implement and possibly much more meaningful then the current proposed approach.

4) Place less emphasis on the "documentation" requirements and more on the principles of what contributes to a sound internal control environment. Many companies already have a strong internal control function, typically in internal audit. Having the auditors lead this initiative is not a good idea. It places them in the position that they will have to audit their own work (documentation). As we have seen their quality and understanding of internal controls is woefully inadequate.

5) Finally, I would advocate that you consider not requiring the auditors to "attest" to the assessment provided by management. Relieving the auditors of this responsibility and instead focusing on requiring them to conduct quality audits with minimum standards much higher then theer current standards would be more meaningful. You could then possibly establish some minimum expectations for companies relative to point #4 above in terms of internal audit procedures.

Having started my career working for one of the largest public accounting firms still in existence, I am truly disappointed in what I perceive as a total lack of quality and professionalism. Although the firms tout their "focus on quality" this is more political rhetoric then material fact.

We have been subject to unfair and excessive increases in the cost of our audit fees. The fees have more then doubled. In addition to these fee increases the auditors have also imposed additional fees for services that they are now providing relative to assisting us in meeting the 404 requirements. These fees are substantial and as I have expressed above the quality of these services is dubious. We also seem to be threatened by statements such as: "if you don't engage us now, we won't have resources to help you later," "If we are not on your team and no engaged to help you may not pass your audit," and "switching auditors may point to the other firms that you have an internal control weakness," are but a few examples of statements our Audit partner and senior members of his team have made.

These statements and tactics not only frustrate me and our team… they insult our organization. But there is very little we can do. Our auditors have convinced our Board that they are "just helping solve the problem the government created." They continue to blame government and congress for this and at least our team thinks the blame belongs in the public accounting profession.

The salaries and partner distributions that these professionals are drawing make Dick Grasso look like a pauper. Sure they may not be making a $140mm each but they are consistently overpaid relative to the value they bring to our firm. Our average billing rates are approaching $180/hour. This translates into an average cost per full time equivalent (FTE) of over $360,000 annually. This is outrageous! Many of their staff are inexperienced. By comparison our average compensation (fully loaded with benefits) for fulltime employees is only $112,000/employee.

We are being held hostage by our external auditors and there isn't much we can do about it. I have asked for my name and contact information to remain confidential because of the obvious threat to my career and my company if I should publicly proclaim my fears and frustration with this deception of the public investor. These rules do more to undermine investor confidence and corporate performance then they proclaim.

Sincerely,

[Redacted] (PLEASE REMOVE NAME FROM PUBLIC FILING)
Corporate Controller
