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Ms Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549–1090

Dear Ms Morris

We welcome the opportunity to provide feedback in respect to the Commission's Concept Release concerning management's reports on internal control over financial reporting.

Westpac Banking Corporation ("Westpac") is one of the four major banking organisations in Australia and also one of the largest banks in New Zealand. We provide a broad range of banking and financial services in these markets, including retail, commercial and institutional banking and wealth management activities. As at 30 September 2005, our market capitalisation was AUD 39 billion (USD 29 billion).

Overall, we support the objectives of SOX S404 of improving the accuracy and reliability of corporate disclosures. We have an extensive SOX Program in place and are currently preparing for our first S404 sign-off that will occur in the next quarter. Based on our experiences, we would like to provide the following feedback to the questions raised by the Commission in this Concept Release.

1. Would additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting be useful? If so, would additional guidance be useful to all reporting companies subject to the Section 404 requirements or only to a sub-group of companies? What are the potential limitations to developing guidance that can be applied by most or all reporting companies subject to the Section 404 requirements?

Currently, the only guidance available is that provided by the PCAOB and this is directed to auditors. We believe that guidance to management that is principle based, supplemented with examples would be useful for registrants to comply with requirements of Section 404. The following are suggested areas of focus:

- Top-down risk assessment;
- Entity-level controls – linkages between entity-level controls and processes and the extent to which reliance could be placed on monitoring controls;
- IT Controls evaluation including assessment of operating effectiveness testing for application controls;
- Management testing of controls with minimum requirements identified
- Deficiency evaluation

2. Are there special issues applicable to foreign private issuers that the Commission should consider in developing guidance to management on how to evaluate the effectiveness of a company's internal

control over financial reporting? If so, what are these? Are such considerations applicable to all foreign private issuers or only to a subgroup of these filers?

No comment.

3. Should additional guidance be limited to articulation of broad principles or should it be more detailed?

We believe that the guidance provided should be principles based but this should be supported by appropriate examples. This will provide clarity to management but at the same time afford management the scope to exercise judgement.

4. Are there additional topics, beyond what is addressed in this Concept Release, that the Commission should consider issuing guidance on? If so, what are those topics?

No comment.

5. Would additional guidance in the format of a Commission rule be preferable to interpretive guidance? Why or why not?

General interpretative guidance is generally preferred to facilitate consideration of a range of arising circumstances however where specific prescription is required a Commission Rule is appropriate.

6. What types of evaluation approaches have managements of accelerated filers found most effective and efficient in assessing internal control over financial reporting? What approaches have not worked, and why?

We have applied a risk-based approach as contained in AS No. 2 and our evaluation included identification of significant accounts, significant locations, business processes, major classes of transactions, risks and controls. We have used the COSO framework guidelines in identifying entity-level controls and the COBIT framework for identification of IT general controls.

7. Are there potential drawbacks to or other concerns about providing additional guidance that the Commission should consider? If so, what are they? How might those drawbacks or other concerns best be mitigated? Would more detailed Commission guidance hamper future efforts by others in this area?

To date, registrants have placed reliance on guidance issued by the PCAOB to auditors. Going forward, the Commission should clearly articulate its responsibilities for issuing guidance to companies. It is also important that there is alignment between guidance issued by the Commission to registrants and that issued by the PCAOB to auditors.

8. Why have the majority of companies who have completed an assessment, domestic and foreign, selected the COSO framework rather than one of the other frameworks available, such as the Turnbull Report? Is it due to a lack of awareness, knowledge, training, pressure from auditors, or some other reason? Would companies benefit from the development of additional frameworks?

We have adopted the COSO framework as it is an internationally recognized framework and comprehensive in nature. If any additional frameworks are being considered, these should provide registrants the flexibility to adopt the framework that best suits their needs in terms of meeting their objectives and making the process efficient and effective.

9. Should the guidance incorporate the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting" (Staff Statement)? Should any portions of the May 16, 2005

guidance be modified or eliminated? Are there additional topics that the guidance should address that were not addressed by that statement? For example, are there any topics in the staff's "Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports Frequently Asked Questions (revised October 6, 2004)"19 that should be incorporated into any guidance the Commission might issue?

Both the May 16, 2005 and October 6, 2004 guidance issued by the Staff were very helpful and should be incorporated into the Commission's guidance. This will eliminate the need for management to refer to multiple publications.

10. We also seek input on the appropriate role of outside auditors in connection with the management assessment required by Section 404(a) of Sarbanes-Oxley, and on the manner in which outside auditors provide the attestation required by Section 404(b). Should possible alternatives to the current approach be considered and if so, what? Would these alternatives provide investors with similar benefits without the same level of cost? How would these alternatives work?

We believe that there is a need to reassess the auditor attestation in place. The current S404 attestation requirements are inherently duplicative in nature. They require management to document and evaluate internal controls and external auditors to review management's assessment as well as attest to the effectiveness of internal controls. It would be appropriate for the external auditor's attestation to focus on the effectiveness of internal controls and one that is risk-based or alternatively rotational in nature (once every 3 years).

Risk and Control Identification

11. What guidance is needed to help management implement a "top-down, risk-based" approach to identifying risks to reliable financial reporting and the related internal controls?

To ensure that a 'top-down, risk-based approach' is implemented the following are areas that further guidance and hypothetical examples are required:

- The linkage between entity-level controls and processes and the extent to which reliance could be placed on entity-level controls;
- The quantitative considerations to assess materiality. In this regard, there is need for guidance as to what represents acceptable key metrics against which the materiality thresholds are applied in order to arrive at materiality figures. For example, what are the options available for companies like finance companies that have inherently large Balance Sheet account balances?

12. Does the existing guidance, which has been used by management of accelerated filers, provide sufficient information regarding the identification of controls that address the risks of material misstatement? Would additional guidance on identifying controls that address these risks be helpful?

No comment.

13. In light of the forthcoming COSO guidance for smaller public companies, what additional guidance is necessary on risk assessment or the identification of controls that address the risks?

Not applicable to Westpac.

14. In areas where companies identified significant start-up efforts in the first year (e.g., documentation of the design of controls and remediation of deficiencies) will the COSO guidance for smaller public companies adequately assist companies that have not yet complied with Section 404 to efficiently and effectively conduct a risk assessment and identify controls that address the risks? Are there areas that have not yet been addressed or need further emphasis?

No comment.

15. What guidance is needed about the role of entity-level controls in evaluating and assessing the effectiveness of internal control over financial reporting? What specific entity-level control issues should be addressed (e.g., GAAP expertise, the role of the audit committee, using entity-level controls rather than low-level account and transactional controls)? Should these issues be addressed differently for larger companies and smaller companies?

There is a need for guidance on the evaluation of entity-level controls and the interpretation of results thereof. Areas that could be addressed include:

- Linkage between entity-level controls like Code of Conduct , HR policies, Risk Management frameworks and financial reporting and the extent to which these could reduce the risk of material misstatement.
- Extent to which reliance could be placed on monitoring controls like management reviews, operational risk reviews and control self-assessment processes.

16. Should guidance be given about the appropriateness of and extent to which quantitative and qualitative factors, such as likelihood of an error, should be used when assessing risks and identifying controls for the entity? If so, what factors should be addressed in the guidance? If so, how should that guidance reflect the special characteristics and needs of smaller public companies?

There is too much emphasis placed on consideration of quantitative factors as part of risk assessment. Guidance with specific examples would be beneficial to highlight the importance of qualitative factors in the risk assessment processes. For example, areas where accounts may not be considered significant based on qualitative considerations even though balances in these accounts exceed the quantitative measures.

17. Should the Commission provide management with guidance about fraud controls? If so, what type of guidance? Is there existing private sector guidance that companies have found useful in this area? For example, have companies found the 2002 guidance issued by the AICPA Fraud Task Force entitled "Management Antifraud Programs and Controls"23 useful in assessing these risks and controls?

Whilst the AICPA guidance has proved useful in the assessment of fraud controls, guidance would be beneficial for the following:

- The extent to which fraud schemes or scenarios, as suggested by the AICPA guidance, should be applied for the fraud control assessment; and
- The evaluation of risk around Senior Management fraud/management over-ride.

18. Should guidance be issued to help companies with multiple locations or business units to understand how those affect their risk assessment and control identification activities? How are companies currently determining which locations or units to test?

It would be useful to have guidance on risk assessment and control identification for companies with multiple locations. Of interest is the scope of work to be undertaken, both at entity-level and individual location level, for insignificant locations.

Management's Evaluation

19. What type of guidance would help explain how entity-level controls can reduce or eliminate the need for testing at the individual account or transaction level? If applicable, please provide specific examples of types of entity-level controls that have been useful in reducing testing elsewhere.

Entity-level controls as a whole has been an area where the guidance has been limited. It is would be beneficial that guidance is provided that:

- Describes the linkage between entity level controls and process level controls

- The extent to which entity level controls that are designed and operating effectively could reduce the scope and extent of testing of process level controls
- The type of testing of design and operating effectiveness that may be performed of entity-level controls

20. Would guidance on how management's assessment can be based on evidence other than that derived from separate evaluation-type testing of controls, such as ongoing monitoring activities, be useful? What are some of the sources of evidence that companies find most useful in ongoing monitoring of control effectiveness? Would guidance be useful about how management's daily interaction with controls can be used to support its assessment?

Guidance would be beneficial on how companies can leverage from ongoing monitoring controls and governance functions. Some of the areas that could be relevant include:

- Periodic reviews performed by management of operational risk profiles
- Management review of financials that are performed at various levels
- Control Self Assessment (CSA) processes that include independent validation of results
- Leveraging the results of ongoing internal audit reviews where they have included detailed testing of internal controls over financial reporting.

21. What considerations are appropriate to ensure that the guidance is responsive to the special characteristics of entity-level controls and management at smaller public companies? What type of guidance would be useful to small public companies with regard to those areas?

Not applicable to Westpac.

22. In situations where management determines that separate evaluation-type testing is necessary, what type of additional guidance to assist management in varying the nature and extent of the evaluation procedures supporting its assessment would be helpful? Would guidance be useful on how risk, materiality, attributes of the controls themselves, and other factors play a role in the judgments about when to use separate evaluations versus relying on ongoing monitoring activities?

We are in the first year of compliance and have therefore applied the guidance provided by the PCAOB in conducting our evaluation of controls. Going forward, we will be looking at areas where we could leverage out of our ongoing monitoring activities. It would be beneficial to understand the Commission's approach for evaluation of internal controls over financial reporting.

We believe that separate evaluations should be restricted to certain higher risk areas and these would include:

- Entity level controls,
- Core finance processes
- Year-end financial reporting processes
- Processes that would include judgment or non-routine transactions
- IT General Controls

Consideration should also be given to have rotational testing for processes that are considered low or medium risk.

23. Would guidance be useful on the timing of management testing of controls and the need to update evidence and conclusions from prior testing to the assessment "as of" date?

We would like to see guidance on management testing of controls especially the need to update evidence and conclusion at year end. In this regard, it should be recognised that control monitoring and testing is a continuous exercise and retesting of controls should be streamlined to eliminate unnecessary re-testing efforts at year-end.

24. What type of guidance would be appropriate regarding the evaluation of identified internal control deficiencies? Are there particular issues in evaluating deficient controls that have only an indirect relationship to a specific financial statement account or disclosure? If so, what are some of the key considerations currently being used when evaluating the control deficiency?

Guidance with examples would be beneficial in the following areas:

- Assessment of entity-level control deficiencies. Current guidance in the AS 2 on areas that are indicative of material weakness and significant deficiencies could be elaborated with hypothetical examples.
- Aggregation of control deficiencies. Clarity is required around the various categories for aggregation of deficiencies namely accounts, assertions, locations, etc.
- ITGC deficiencies with clear guidance as to which deficiencies would represent a material weakness or significant deficiency.

25. Would guidance be helpful regarding the definitions of the terms "material weakness" and "significant deficiency"? If so, please explain any issues that should be addressed in the guidance.

Please refer our comments to question number 24.

26. Would guidance be useful on factors that management should consider in determining whether management could conclude that no material weakness in internal control over financial reporting exists despite the discovery of a need to correct a financial statement error as part of the financial statement close process? If so, please explain.

No comment.

27. Would guidance be useful in addressing the circumstances under which a restatement of previously reported financial information would not lead to the conclusion that a material weakness exists in the company's internal control over financial reporting?

No comment.

28. How have companies been able to use technology to gain efficiency in evaluating the effectiveness of internal controls (e.g., by automating the effectiveness testing of automated controls or through benchmarking strategies)?

This is our first year and therefore our use of technology has been limited to the use of automated tools for data storage of our documentation and testing records. We expect this will improve as experience is gained in subsequent years.

29. Is guidance needed to help companies determine which IT general controls should be tested? How are companies determining which IT general controls could impact IT application controls directly related to the preparation of financial statements?

We have used a modified COBIT framework for assessing IT general controls. Further guidance in respect to IT general controls would be beneficial for the following:

- Specific financial reporting impacts that are associated with risks in the IT environment
- Nature and extent of testing required for IT general controls.
- Assessing the impact of IT general control deficiencies on financial reporting.

30. Has management generally been utilizing proprietary IT frameworks as a guide in conducting the IT portion of their assessments? If so, which frameworks? Which components of those frameworks have been particularly useful? Which components of those frameworks go beyond the objectives of reliable financial reporting?

Please refer response to question number 29.

Documentation to Support the Assessment

31. Were the levels of documentation performed by management in the initial years of completing the assessment beyond what was needed to identify controls for testing? If so, why (e.g., business reasons, auditor required, or unsure about "key" controls)? Would specific guidance help companies avoid this issue in the future? If so, what factors should be considered?

Our initial documentation of processes and controls resulted in excess documentation in certain areas. We have now been able to streamline our processes and controls and intend to further rationalise control documentation.

Clarity would be required in respect to retention periods for documentation of management's assessment similar to that provided for storage of documentation by external auditors.

32. What guidance is needed about the form, nature, and extent of documentation that management must maintain as evidence for its assessment of risks to financial reporting and control identification? Are there certain factors to consider in making judgments about the nature and extent of documentation (e.g., entity factors, process, or account complexity factors)? If so, what are they?

No comment.

33. What guidance is needed about the extent of documentation that management must maintain about its evaluation procedures that support its annual assessment of internal control over financial reporting?

No comment.

34. Is guidance needed about documentation for information technology controls? If so, is guidance needed for both documentation of the controls and documentation of the testing for the assessment?

No comment.

35. How might guidance be helpful in addressing the flexibility and cost containment needs of smaller public companies? What guidance is appropriate for smaller public companies with regard to documentation?

Not applicable to Westpac.

Peter King

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