

The proposed rule for management's report on internal control over financial reporting appears beneficial in many areas but maintains many flaws as well. The fact that management only needs to assess their internal controls once per year doesn't seem like enough. It is most critical to check internal controls at the end of every fiscal year but also very important to perform assessments throughout the year in order to protect investors that use financial statements and quarterly reports. Although difficult to designate one methodology to assess every company's internal controls, every company should have their own methodology which should evolve along with the design of their internal controls.

It is understandable for management not to assess every process but there should be guidelines in place where they have to report the process's left out and why. In assessing risks, management should perhaps designate processes into three categories, high risks, medium risks, and low risks, and report on why the processes were designated to the certain category. To say that it's entirely at management's discretion is being far to trusting of today's corporate America.

The proposed rule states that management should be more focused on changes in risks and controls rather than identification of risks and controls. If all risks and controls are not identified then how will management know if there are changes in these risks and controls that could possibly materially affect the financial statements? In subsequent years, management's efforts may decrease because the evidence needed to support their assessment will only need to be updated, but every change to the internal control process creates new risk, large or small, which management will need to address.

Evidential matter to support the assessment of internal controls is the most integral factor in the internal control process. It's one thing to have an effective internal control system with evidence to support the process but it's a totally different thing to have insufficient evidence to support the ICFR. The type and extent of evidence will vary depending on size, nature, and complexity of the company, but to leave the evidential standard at that seems vague and leaves room for manipulation of the internal control process.

Companies that operate at different locations have many more risks in dealing with their internal controls than those with a single business location. The proposed rule suggest that it is at management's discretion to decide if the financial reporting risks at its central location adequately address the internal controls at all its locations; but how will management know if its financial reporting risks are adequately addressed at its central location if they don't assess it's internal controls at all locations? The only way to decide if the internal controls of the central location sufficiently address those of all locations is to assess the internal controls of every location possible or, if a company has a large number of locations, at least a sample of those locations.

While the proposed rule addresses many issues of importance in dealing with internal controls it is, overall, inadequate and ambiguous. For investors who rely on the importance of financial documents in making investment decisions, the proposed rule has many areas that need to be dealt with in order to restore confidence in today's businesses and corporations.