THE OHIO SOCIETY
OF CERTIFIED
PUBLIC
ACCOUNTANTS

February 26, 2007

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

Re: File Number S7-24-06

The Auditing Standards Task Force of The Ohio Society of CPAs reviewed the proposed SEC interpretive guidance, "Management's Report on Internal Control Over Financial Reporting," and the related proposed rule amendments, and submits the following comments for your consideration. We appreciate the opportunity to review and provide comments on the proposed interpretative guidance, and would be pleased to further discuss any or all of the responses as desired with the Securities and Exchange Commission.

Overall, the task force found the proposal helpful in more clearly outlining management responsibilities and guidance on the approach that will be helpful to entities in conducting their annual evaluation.

<u>Responses to questions in the request for comment follow:</u>

1. *Will the proposed guidance be helpful to management in completing its annual evaluation process?*

   Yes; however, ultimately a more influential factor in terms of the level of efficiency and effectiveness management will realize will result from the public accounting firms' interpretation of the proposed PCAOB auditing standard, and the related inspection process by the PCAOB. In order to reduce overall costs, management will conduct testing consistent with the risks identified by the external auditor to provide the auditors with the opportunity to use their work.

   *Does the proposed guidance allow for management to conduct an efficient and effective evaluation? If not, why not?*

   Yes, it does give management the opportunity to make some changes in their current approach. As noted above, whether the changes will be consistent with those adopted by the external auditor will determine its efficiency and effectiveness.

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2. *Are there particular areas within guidance where further clarification is needed? If yes, what clarifications are needed?*

   a. There are inconsistencies in the examples of circumstances that may indicate that the internal control environment is ineffective between the SEC guidance (p. 45,) the PCAOB auditing standard proposal (paragraph 79,) and the original PCAOB AS 2 (paragraph 140). It's unclear whether this is by design or inadvertent.

   b. In the PCAOB proposed auditing standard, one question asked is whether interim period responsibility should be removed from the draft. If interim period responsibility is removed from the auditing standard, it is critical that interim period responsibility be clarified in the SEC Interpretative Guidance for management.

   c. Clarification would be beneficial on the definition of self-assessment and when and how self-assessments are engaged and are applicable.

   d. Clarity is needed on the ability to use experience in determining testing levels in subsequent years, after the initial audit year.

   e. Additional clarification is needed on the meaning of daily interaction as a basis for evaluation, and its effect on the evidence trail. It's not clear what the minimum standard is for an evidence trail.

3. *Are there aspects of management's annual evaluation process that have not been addressed by the guidance that commenters believe should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?*

   a. Section 302 and management's responsibility over internal control processes in interim periods.

   b. Circumstances where an entity has multiple locations. Additional guidance would be beneficial with regard to the level of controls documentation at the entity-level.

   c. The document introduces the term "financial reporting element," which is not defined in auditing standards. Some formal definition of what constitutes a financial reporting element would be appropriate.

4. *Do topics addressed in the May 2005 Staff Guidance and FAQ October 2004, continue to be relevant or should such guidance be retracted? If yes, what topics should be kept or retracted?*

The SEC May 2005 staff guidance should be superseded by this document. If there are particular unique elements in the previous guidance not superseded, they should be incorporated in the proposed guidance, rather than creating two competing references. We do not believe there are unique elements in the May 2005 staff guidance that need further inclusion in the proposed SEC Interpretative Guidance. The October 2004 FAQ addressed some specific and unique issues, and should be retained in its current form, correcting any changing references.

5. *Will the guidance require unnecessary changes to evaluation processes that companies have already established? If yes, please describe.*

   No, the proposed guidance provides sufficient flexibility to management in their efforts to support a view of and assert on the effectiveness of internal controls.

6. *Are there areas of incompatibility between the SEC Guidance and PCAOB proposed auditing standard that limit the effectiveness or efficiency of an evaluation conducted in accordance with the Guidance? If so, what are those areas, and how would you resolve the incompatibility?*

   a. Strong indicators of a potential material weakness (see question 2).

   b. The ability to reflect daily interaction as a substitute for a more formal process.

7. *Are there definitions included in the Guidance that are confusing or inappropriate, and how would you change definitions so identified?*

   In addition to the comments included in the response to question 2, on page 42-43 the Guidance discusses "possible future consequences of deficiency," which is not well defined.

8. *Will Guidance for disclosures about material weakness result in sufficient information to investors, and if not, how would you change the Guidance?*

   We believe disclosure guidance on material weaknesses should be uniformly consistent, complete, and mandatory for all reporting companies.

9. *Should Guidance be issued as an interpretation or should it, or any part, be codified as a Commission rule?*

   It should be issued as an interpretation.

10. *Are there any considerations unique to the evaluation of ICFR by foreign private issuer that should be address in the guidance? If yes, what are they?*

    We believe no codified Commission rule is needed, although implementation matters that are unique to foreign private issuers could be addressed through the issuance of new FAQ's.

<u>Responses to questions on the proposed rule amendments follow:</u>

1. *Should compliance with the Guidance be voluntary, as proposed, or mandatory?*

   Compliance should be voluntary as a safe harbor guideline, as proposed in the guidance.

2. *Is it necessary or useful to amend the rules if proposed interpretive guidance is issued in final form, or are rule revisions unnecessary?*

   If the guidance is issued as an interpretation, there is no real benefit to amending the rules.

3. *Should rules be amended in a different manner in view of the proposed interpretative guidance?*

   There is no added benefit to amending the rules.

4. *Is it appropriate to provide proposed assurance in Rules 13a-15 and 15d-15 that an evaluation conducted in accordance with the interpretative guidance will satisfy the evaluation requirement in the rules?*

   Yes, we believe this assurance is beneficial to management.

5. *Does proposed guidance offer too much or too little assurance to management that it is conducting a satisfactory evaluation if it complies with the interpretative guidance?*

   The level of assurance is appropriate.

6. *Are proposed revisions to Rules 13a-15c and 15d-15c sufficiently clear that management can conduct its evaluation using methods that differ from the interpretative guidance?*

   Yes, the rules are sufficiently clear in this area.

7. *Do the proposed revisions to Rules 1-02(a)(2) and 2-02(f) of Regulation S-X effectively communicate the auditor's responsibility?*

   Yes.

   *Would another formulation better convey the auditor's role with respect to management's assessment and/or the auditor's reporting obligation?*

   We believe the existing proposal adequately communicates the auditor's responsibility.

8. *Should SEC consider changes to other definitions or rules in light of these proposed revisions?*

   No.

9. *The proposed revision to Rule 2-02 (f) highlights that disclaimers by the auditor would only be appropriate in rare circumstances. Does this adequately convey the narrow circumstances under which an auditor may disclaim an opinion under our proposed rules? Would another formulation provide better guidance to auditors?*
   Yes, the disclaimer reference is adequate.

The SEC also requested comment on the nature of the costs and benefits of the proposed amendments, including the likely responses of public companies and auditors concerning the introduction of new management guidance. Task force members responded that the guidance would not dramatically change accelerated filers' approach. As noted in response to the first question, the impact of the guidance will be driven more by the external auditors' response to the PCAOB proposed auditing standard, as well as the interpretation and inspection approach of the PCAOB.

The guidance is beneficial in clarifying the requirements of management, especially for non-accelerated filers. Additional time needs to be spent on the exploration of concepts in the SEC guidance and PCAOB proposal between management and external auditors. Expanding that dialogue is a positive result of both proposals, and will likely result in accelerating the dialogue as well to provide input to both management's and external auditors' planning processes.

If you have any questions about the above comments or deliberations of the task force, please contact me at the following telephone number or e-mail address.

Sincerely,

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