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Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

File No. 4-497, Implementation of Sarbanes-Oxley internal Controls Provisions

We would like to thank the Security and Exchange Commission for the opportunity to comment on issues related to Sarbanes-Oxley compliance.

We worked with our internal consultants, industry contacts, and clients in providing this critique of current practices. Enpria provides Sarbanes-Oxley consulting services, educational resources, business consulting, technology consulting, and staffing solutions for our clients. Our consultants have worked with corporations of various sizes and levels of complexity in a variety of industries on Sarbanes-Oxley projects. While we know that our own biases are part of this document, specifically our focus on education, an attempt has been made to provide recommendations that support the intent of the Sarbanes-Oxley Act.

The following is a discussion of some of the major issues that we see in attempting to build sustainable internal control programs. This is not intended to be a comprehensive discussion, but a discussion of selected substantial issues that have been seen by our internal consultants, industry contacts, and clients.

Thank you for this opportunity to participate in improving the regulations related to the Sarbanes-Oxley Act of 2002.

Sincerely,

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Sarbanes - a “Top Down” Process:

We have observed that while most companies may want to, or at least want to appear to have a top down process, in reality, they do not. True executive sponsorship is rare – only a few Sarbanes-Oxley compliance projects are being driven by C-Level Officers. Actually, most of these projects are run from two or more levels below those responsible for forming policy, essentially limiting the scope and power inherent in executive based initiatives. This defacto abdication of executive leadership to mid level managers is in reality responsible for greatly increasing the real implementation costs and timelines by removing the enterprise based imperative and supporting authority designed and tasked by the PCAOB, SEC, and Congress.

It is our belief that successful implementation of standards of any type, and especially frameworks such as COSO require a top down process that includes executive sponsorship, socialization of the implementation strategy, and clear communication of policies.

Because of the sweeping enterprise-wide nature of Sarbanes-Oxley changes, silo managers lack the authority and will to implement them, slowing down the process, and in many cases, grinding progress to a halt. This generally results in a company having several compliance project silos. Silos that rapidly grow thick walls inherent in independent projects which create the following predictable issues:

- duplication of effort
- communications challenges between business, finance and IT
- inconsistent use of terminology and standards
- inconsistent levels of documentation and testing
- focus on short term requirements and a lack of long term planning
- reduced levels of training and understanding of internal controls
- inconsistent understanding of enterprise goals or requirements

While it appears that Executive management does not see the need to understand the design and operation of internal controls over financial reporting, we don't believe this is the case. Rather, they perceive that in the priorities set before them, Sarbanes-Oxley is an encapsulated and eminently “delegatable” task that does not merit or require their personal attention. Simply, they perceive themselves too busy, and besides, “this will all go away in time”....

Therefore, Sarbanes-Oxley compliance has turned into a project which at best meets the short term requirements with little regard for how these control structures will work in the future across an integrated enterprise. Companies tend to work only to meet minimums; several of our clients have stopped compliance projects when extensions have been granted.

Too many companies see this as intruding upon the practice of business when it was intended and designed to reform audit practices and their documentation.

Audit Firms and Independence:

Sarbanes-Oxley is designed to ensure independent reviews based on standardized audit practices make corporate financial transaction processes transparent. Independence is all about bringing fair and impartial external review into a company's practices. Easy to say; more complex in the real marketplace. Here's why:

We find that the large Audit Firms remain conflicted in their inherent interest of preserving their market share/billing hours through exclusive contracts with companies and providing objective feedback to management in support of integrating these standards into the business process. Sometimes this is done through supplying both consulting and audit services. Sometimes this is done by not providing clear auditing guideline instructions upfront and then requiring deeper consultative based remediation based audits on the backend. Either way, the practice results in much higher audit costs through increased time and effort, not to mention the cost in good will.

We do not feel this is a nefarious practice. Rather it is the logical outcome of the fact that each company's business practices are the result of a unique evolution. Intelligent interpretation and a creative component of assessment is required to map the auditing standards to both hard coded and practice/policy based procedures.

Therefore, audit firms appear reluctant to answer detailed scoping questions out of fear of compromising their independence, and risking the consequences, e.g. lost business, fines, jail time, etc. Sadly, this has created a communication chasm that profoundly precludes the Auditor and the Audit Client from bridging their positions and working together for the common good. While the identification of key controls and the breadth and depth of testing and documentation associated with those controls should be initially determined by management, knowing that they are adequate before an audit proceeds will greatly lower the risk of auditing a fundamentally flawed practice or even documenting results in incompatible formats. Good planning simply prevents poor performance.

The trick is making sure that proper expectation setting does not creep over that oh so difficult to define line of complicity.

Should an audit partner disagree with a company's approach or process, the audit partner should be free to provide a substantiated opinion to management, which would save everyone time and trouble up front. In this manner, the intent of Sarbanes, to improve financial controls and accountability, can be better served. Frankly, the SEC should provide additional guidance to Audit firms and Business leaders on how questions can be asked and answered, which would eliminate the game of cat and mouse currently being played out between the Auditor and Audited. Clearly defined definitions and boundaries and explicit examples would go a long ways to focusing on the solution rather than fearing ambiguity.

If so provided, the task of developing breadth and depth of testing and the subsequent process of documentation would be significantly reduced.

While we think that Auditor Independence can be limited when it comes to basic communications of how to design, test, and document internal controls, we do not think that Auditor Independence requirements should be completely removed. FAR FROM IT!!! In fact, we feel that Audit firms still have a number of issues relating to providing management consulting services that are fundamentally inconsistent with the intent and letter of Sarbanes-Oxley. We strongly applaud the chasm separating Auditor and Audited here.

In fact, we feel that the roles of the auditors and those providing attestation should be separated.

Some thoughts might well be pondered.

- Not only is the PCAOB/SEC guidance set vague and inexplicit, there is a wide difference between audit partners within the same audit firms!
- Most audit partners are finance professionals and simply lack an IT professional's background in understanding general computer controls
 - This means the auditor will charge big bucks for being trained by the client in how technology works as well as how it is applied within the context of a company's policies/practices
- Indecision and uncertainty are very expensive, and carry a lost opportunity as well as a direct cost. They are responsible for driving up costs in an insidious, and unseen manner.

The critical nature of understanding and properly selecting standards:

We feel that Sarbanes-Oxley, and the suite of compliance initiatives and acts, simply requires by statute what has been dictated for years by good engineering and business practice. Sadly, they have too often been sacrificed on the altar of expedience, which is both a reality of the market and the result of short sighted measurement of our public corporation's management teams. In the end, compliance with comprehensive standards based framework results in optimal performance and minimized lifecycle costs.

To begin with, most companies we observe have an incomplete understanding of COSO and/or COBIT the two standards that we see used the most to develop internal control programs. This is not surprising; without external pressure to conform to them, they are unlikely to receive much attention in the day to day priorities of harried staffs. The best tool to resolve this shortcoming is Education coupled with on the Job mentoring.

Once the standard is understood, the issues of testing and documentation arise, which beg the whole question of "reasonableness" in the application of the standards. While the SEC has been generous in publicly explaining that the regulatory body is new and growing, additional support is clearly required. We strongly recommend the SEC provide focused,

detailed guidance addressing application of specific standards to areas such as General Computer Controls. As mentioned, this guidance is essential for helping management reduce the costs of compliance.

Once again, one of the major problems we have seen is that management does not have a good understanding of the requirements due to a lack of communication with the Audit/Attestation firm. Recommend the PCAOB provide statistical norms (based on the external audit results to date) for reasonableness, framework, and corporate sector. It would also be helpful to have additional qualitative or subjective guidance for what is "reasonable" for application-level access controls within the ITGI framework for the specific business sectors (i.e. manufacturing, banking, etc...). Simply put, it is easier to edit than create....

Once management has adopted a standard, especially in the first few audit cycles, we feel the Audit/Attestation firm should be able to provide management with preventative feedback to support the integration process. Until all public companies have instituted standards that support internal controls we need a cooperative effort that includes management, audit/attestation firms, regulators, and third party consulting firms.

The goal should be to build programs in public companies that will allow for sustainable compliance efforts by selecting and leveraging ideas that provide a return on the investment, i.e. those which reduce the cost of compliance. The Wall Street Journal (Friday, March 25, 2005 page C3) points out that audit fees increased about 40% last year. This should be a concern considering the limitations on the type and scope of work that can be done by audit firms. It has been our observation that some audit firm partners may be taking advantage of their public clients by raising rates and performing deeper or broader audits than required by regulation. We believe such cases are the exception, yet feel compelled to remain silent lest we be crushed by their weight.

On Education:

Education is *critical* for success; companies should be encouraged to improve training for key personnel. Our experience shows that most employers do not have proper training programs either in place or have made provision to build them. Many of these companies are still approaching Sarbanes-Oxley as a one time project that will align the company with regulatory requirements and will only require minor adjustments in the future. Their lack of understanding of the long term implications of Sarbanes-Oxley is a serious impediment to developing and rolling out a robust internal control program which is sufficient adaptable to stand the test of time. Public Companies and Auditors need to realize that Sarbanes-Oxley is a paradigm change, not a shift in audit priorities.

Audit Firm alignment:

Increased requirements have simply outpaced existing audit resources. Almost all Audit and Consulting Firms simply lack trained, qualified, and experienced staff to meet their

existing clients needs, much less take on additional workload. Predictably, this has adversely impacted the needs of small to medium sized businesses as the larger firms circle around their largest clients, being that they supply the largest revenue base.

Several clients have shared with us that they are paying top line fees for inexperienced Audit personnel. Therefore, we feel that public companies should have the option to engage any registered Audit Firm to provide or support attestations. We feel that additional capacity will increase competition through increasing supply which will help Public Companies reduce the overall cost of the attestation.

We suggest that the SEC should independently review engagement costs to determine if Audit firms are driving up billing hours for Sarbanes-Oxley attestations based on scope changes or to increase margins. Public companies need to look to smaller third party consulting firms for new ideas and lower costs and should be encouraged to do so to increase competition.

Reduce the fear factor:

Let us not lose sight of the goal: to get Public Companies to build serviceable internal control programs that will bring them into compliance with PCAOB and SEC regulations related to the Sarbanes-Oxley Act of 2002.

We feel that finding ways to reduce the fear factor that affects the way Public Companies communicate with Auditors is critical to this process. One way is to remind companies that filing a material weakness is not a violation and that they can include information that explains what is being done to correct these issues. Removing any "stigma" will facilitate the process of on-going self-correction and improvement.

Fear is often born out of ignorance. Public Companies typically lack the training and understanding of Sarbanes-Oxley Act and regulatory body. Audit Firms have fueled this disconnection with limited communications. The simple fact is that Public Companies can readily acknowledge exceptions and still be in compliance. The SEC could be more vocal on this issue.

Background:

In the 2004 Annual report the PCAOB noted that:

The Act established an independent, nonprofit, nongovernmental body to oversee the auditors of publicly traded companies "in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports."

To accomplish this mission, the Act gave the new oversight body four primary responsibilities:

- *Registration of accounting firms that audit public companies trading in U.S. securities markets;*
- *Inspection of registered accounting firms;*
- *Establishment of standards for auditing, quality control, ethics, and independence, as well as attestation, for registered accounting firms; and Investigation and discipline of registered accounting firms and their associated persons for violations of law or professional standards.*

This places the emphasis of the Sarbanes-Oxley Act on reforming accounting practices in public companies. This was due to a lack of confidence in self regulation of audit firms and the conflicts that existed between the need for independent auditing and the desire of audit firms to support non-audit services for audit clients. This statement shows the need for the PCAOB and the SEC to provide specific, timely, and transparent guidance on issues related to accounting practices in public companies.

The PCAOB has recognized that they can not create a one size fits all solution for audit and attestation engagements. They have supported a standards based approach that makes sense and provides a baseline approach to sustainable compliance programs. In many statements they have been sensitive to the cost of compliance and the need to protect small public companies from excessive costs. The PCAOB has been clear that company size, number of employees, and industry practices all play a role in the design and implementation of internal control systems. Small firms need an improved understanding of the options available to management and how they can cost effectively meet regulatory requirements.

Conclusion & Review of Recommendations:

The objective of the audit of internal control over financial reporting is to obtain reasonable assurance that no material weaknesses exist as of the date specified in management's assessment. The goal of any action by the SEC should be to align Auditing firms with this objective. The SEC should remind both Audit firms and Public Companies of this goal through guidance and regulation that supports this goal. One of the major issues appears to be cost increases related to audit and attest services. Some consideration in any review or guidance should be:

- Excessive billing for services that are not actually related to Sarbanes-Oxley attestation (i.e. Y2K syndrome) – i.e. money for Sarbanes-Oxley is available, and is being used as a smoke screen to mask the real motive for an upgrade or change.
- Finance auditors do not always have the business or technical background required to make appropriate choices for technology related controls

- Many companies are not taking the time to make compliance a key part of their long term business strategy
- None of this is new. Most of the regulatory body has been taken directly from AICPA guidance. The difference is that it now has the force of law and can not be so easily or conveniently ignored.
- Good engineering and business practices have a place in public companies. Sarbanes-Oxley, if done well, can provide a solid base for good engineering and business practices which will help companies improve their financial performance.
- Extensions do not work. Several of our small companies have simply suspended all Sarbanes-Oxley work. Many large companies did the same when they were granted an extension. A better solution would be to require that some level of compliance must be met this year and the rest to follow.
- Allow small companies to file a qualified opinion on the attestation for a reasonable but short period of time. This will provide shareholders with some idea of the current internal control structure, while allowing management the additional time to build a sustainable Sarbanes-Oxley program.