
From: Burton, Robert [Robert.Burton@adc.com]
Sent: Thursday, April 20, 2006 11:37 AM
To: Comments
Subject: Internal Control Roundtable

Thank you for requesting comments on our experiences with the second-year implementation of Internal Control Reporting and Auditing Provisions.

Company's are spending thousands of hours and millions of dollars documenting and testing everyday business processes that inherently have a large number of controls and minimal risk relative to a **material** misstatement to the financial statements. These processes would include order entry, credit terms, customer returns, cash applications, accounts payable, and payroll/benefits – to name a few. These routine processes have historically been included in the financial audits performed by public accounting firms as well as in the risk assessments and audit efforts of internal audit departments. Historically, there has not been many significant financial frauds or material misstatements related to these everyday processes.

Where is the Risk? It's not in order entry, or the goods-receipt process or knowing who can create a vendor record. It wasn't the lack of a SAS 70 audit that caused the collapse of Enron. Nor did World-Com fall because the accounts payable clerk forgot to run the duplicate payment report. The risk of a material misstatement to the financial statements is in the following areas where controls are few and risk is high:

- Entity Level Controls
- The Financial Close Process
- Revenue Recognition

Pre-SOX Financial Scandals

<u>Company</u>	<u>Issue</u>	<u>Type of Control</u>
Enron	Fraud – top executives	Entity Level Controls
World-Com	Fraud – top executives	Entity Level Controls Financial Close Process
Adelphia	Fraud – top executives	Entity Level Controls

Post-SOX Material Deficiency Disclosures

<u>Issue</u>	<u>Type of Control</u>
Lease Accounting	Financial Close Process
Account Reconciliations	Financial Close Process
Lack of qualified accounting staff	Entity Level Controls
Technical accounting issues	Financial Close Process
Lack of customer contract reviews	Revenue Recognition

Strong Entity Level Controls, controls impacting the financial statement close process and controls related to revenue recognition will reduce the risk of another Enron. Controls related to routine processes and transactions are important, but the risk does not warrant the extensive amount of time and dollars that SOX 404 currently requires. The PCAOB should re-focus SOX 404 efforts to where the risk really is.

Sincerely,

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