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Office of the Secretary  
PCAOB  
1666 K Street, NW  
Washington, DC 20006-2803

RE: PCAOB Rule Making Docket Matter #008

These comments are based on experience as a public member of several accounting groups and of numerous public company audit committees.

This proposed auditing standard represents one of the most important regulatory step by the Board. The Board's release demonstrates that it brings careful analysis and a balanced approach to this important matter. My comments focus on several areas of the Board's proposal and concludes with discussion of a policy issue that the Board may want to think about:

An integrated audit of both the financial statements and internal controls over financial reporting makes sense both on the grounds of effectiveness and efficiency. For too long, there has been a lack of understanding by auditors of how much knowledge auditors need about internal control and the nature and extent of control testing. As an audit committee member, I frequently noticed that auditors paid little or no attention to the clients' internal control systems.

With this standard, there should be no longer be any misunderstanding about the relevance of internal control to an audit and how internal control should be considered in the course of performing an audit. Moreover, this proposed standard will clarify for investors the role of the auditor in attesting to management's assessment of internal controls and the degree of internal control work that auditors must perform in connection with their audit of financial statements.

My major problem with the proposed standard is the lack of emphasis on major areas susceptible to fraud risk in planning an audit of internal controls. In the O'Malley Panel report, we pointed out the need for some kind of "forensic" type procedures for every audit to enhance the prospects of detecting material financial statement fraud. In planning an audit of internal controls, the auditor should ask where is the entity vulnerable to the override of internal controls by management. The Board may want to integrate this standard on the audit of internal controls with an audit standard designed to detect internal fraudulent financial reporting.

On page 6 of its proposal, the Board states that, for smaller, less complex companies, auditors can exercise reasonable professional judgement in determining the extent of the audit of internal control. Why shouldn't this statement relating to professional judgment apply to all internal control audits and not just to those of smaller, less complex companies?

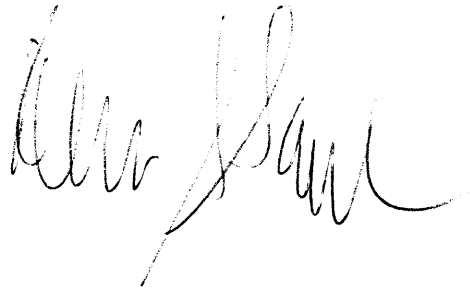
The requirement in the proposal that the auditor evaluate the effectiveness of the audit committee's oversight may be correct in theory but unrealistic in practice. The only alternative for the auditor who concludes that the audit committee's oversight is inadequate is to report it as a material weakness to the full board or to resign. I doubt that the auditor will do either. What the auditor should do is to highlight for the committee its responsibilities in a subtle but pointed way. I would omit this part of the proposal.

I agree with the approach taken by the proposed standard that the auditor can provide an internal control related non-audit service to an audit client if it has been specifically pre-approved by the audit committee. When the Board gets around to dealing with the independence issue, I would hope that it would permit audit committees to pre-approve internal control related non-audit service as a category. In this connection, the SEC pronouncement on auditor independence needs rethinking by the Board.

In conclusion, there is a broader policy issue the Board might want to think about, i.e. how does the Board see its role in setting audit standards. In the case of this proposed standard, the Sarbanes-Oxley Act requires the Board to establish professional standards governing the auditor's attestation of the effectiveness of internal control over financial reporting. However, does it make sense for the Board and its staff to establish all audit standards for public companies? The number, variety and

complexity of auditing standards pose an enormous task for the Board's staff and could place the Board in the position of creating something analogous to the IRS Code and Regulations. It would seem to me wise for the Board to play an oversight and monitoring role with respect to most standards and to delegate the primary task to professional groups who have the knowledge, experience and flexibility to do the heavy lifting in standard setting.

Very truly yours,

A handwritten signature in cursive script, appearing to read "W. J. McDonough". The signature is written in dark ink and is positioned to the right of the typed name.

cc: William J. McDonough, Chairman