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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 008 - Proposed Auditing Standard-
An Audit of Internal Control Over Financial Reporting Performed in Conjunction With
an Audit of Financial Statements

Gentlemen:

I believe compliance with your Proposed Auditing Standard will result in excessive and redundant costs. Adoption of your proposal will immediately place foreign subsidiaries of American businesses at a distinct disadvantage relative to local competitors and hamper the ability of American business to compete globally. It will hinder responsiveness in a rapidly changing business environment. I urge the PCAOB to reconsider the need for the "audit of internal control" mandated by the Proposed Standard and adopt provisions more closely aligned with the report on management's assessment of internal control required by the Sarbanes-Oxley Act of 2002 (SOX).

The requirements of your Proposed Standard appear to be particularly onerous for the small and medium-sized issuers referenced in your question 4. We for example are a medium-sized manufacturer consisting of several smaller business units operating in six countries. One-on-one training and close supervision are more frequently encountered than user manuals and formal documentation. We have been active in acquiring other companies, many of whom are small, privately held entities that have loose and informal procedures. Our business environment requires that we very carefully watch our head-count, our capital expenditures and virtually all other aspects of the business that require resources.

Our efforts to comply with SOX began over a year ago. A conscious effort was made to ensure we are performing comprehensive quarterly reviews while incurring minimal expense and disruption to our team. We have learned, we have improved, and we expect to continue doing so in the foreseeable future. Into this environment comes your Proposed Standard, which we believe will have the following effects:

1) A substantial increase in annual external audit fees.
2) A substantial increase in expense to prepare user manuals, flowcharts and other types of formal documentation. This is evidently advisable because under the terms of your Proposed Standard "inadequate documentation of the design of controls" is an "internal control deficiency" (page A-43, paragraph 125).
3) A substantial, ongoing increase in expense to change the user manuals and formal documentation mentioned above to reflect changes in systems and procedures as they occur.
4) A substantial increase in expense for management to test and evaluate control procedures relating to "all relevant assertions related to all significant accounts and disclosures" (page A-19, paragraph 41), presumably in all business units and in all countries. We should be happy to do so knowing that the majority of what we do will be disregarded by our auditors and must be repeated by them, since there are a number of significant areas "in which the auditor should not use the results of testing performed by management" (Page A-38, paragraph 104) and, in the end, "the auditor must perform enough of the testing himself or herself so that the auditor's own work provides the principal evidence for the auditor's opinion" (page A-39, paragraph 109).

5) Severely constrained and highly impractical timing in finalizing and integrating acquisitions. Presumably deals involving significant acquisition targets having little documentation and substantial room for improvement in controls would have to be either finalized early in the fiscal year or avoided completely. If consummated there will be only a few months to make the substantial changes needed to avoid possible negative disclosures resulting from the annual "audit of internal control". Further, these changes would have to be completed early enough in the year to permit testing of their operating effectiveness.
6) Severely constrained timing and a substantial increase in expense relating to significant system changes and conversions. These too may have to be completed early enough in the fiscal year to permit testing of their operating effectiveness. Each significant system change or conversion could become far more expensive; since related controls typically are regarded as "information technology general controls" and as such are one of those "areas in which the auditor should not use the results of testing performed by management and others".

I do not believe the "audit of internal control" mandated in your Proposed Standard results from a kind of ground swell of investor demand as implied in the first paragraph of page 8. Rather, I note that the approach outlined in your Standard is largely identical to the approach described by the AICPA's Auditing Standards Board in its proposal offered in March 2003. The "audit of internal control" I submit, results more from the profession's concern for protecting itself. That concern is understandable. I suggest a revised proposal along the following lines:

- Define management's responsibilities in performing its assessment of internal control in much the same manner as your paragraph 19 which begins on page A-13;

- Define the auditor's responsibilities in evaluating management's assessment along the lines of paragraph 41. Be specific as practicable and provide criteria the auditor can use to determine if management appears to have satisfied its responsibilities. The end result of the auditor's work should be his or her opinion as to whether management appears to have a reasonable basis for expressing their opinion on internal control. Make clear in the resulting report that internal control and its assessment is a responsibility of management, while the auditor's responsibility is to determine if management had a reasonable basis for their assessment.

- Reconsider the interpretation of SOX Section 103(a)(2)(A)(iii), which heretofore seems to have been construed to require substantial tests of control procedures performed directly by the auditor in conjunction with an "audit of internal control". I believe the public would be better served by a description of the scope of testing performed as part of the integrated audit of the financial statements and management's assessment of internal control. The auditor's report might state for example that his or her tests of internal control were limited to those considered necessary in the circumstances to ensure management had a reasonable basis for their assessment of internal control, ensure receipts and expenditures were being made only in accord with appropriate authorizations, and ensure reasonably accurate and detailed records were being maintained.

- Work to provide the public accounting profession with some form of safe harbor concerning their review of management's assessment of internal control. The auditor's liability should be limited if he or she can show they satisfied the auditor's responsibilities defined by the PCAOB. Limited liability is, in my estimation; preferable to the enormous costs involved in an "audit of internal control."

Management's assessment has value, and the public good is well served by ensuring their assessment has substance. The auditor's attestation on management's assessment can and should be a very different, far more focused service than the broad "audit of internal control" proposed. Please work toward a more cost-effective solution than that described in the Proposed Standard.

Respectfully submitted,

Dennis M. Stevens