

November 21, 2003

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

Re: PCAOB Rulemaking Docket Matter No. 008

Ladies and Gentlemen:

E. I. du Pont de Nemours and Company appreciates the opportunity to comment on the proposed auditing standard, *An Audit Of Internal Control Over Financial Reporting in Conjunction with an Audit of Financial Statements*. DuPont fully accepts its responsibility to implement and execute effective controls over financial reporting. However, we believe the proposed standard should be modified to take a more balanced, yet equally effective, approach in obtaining this objective.

Rather than address each of the 31 questions in the proposed auditing standard, our response covers matters of particular concern to us. In addition, we are in agreement with the Committee on Corporate Reporting of the Financial Executives International's letter dated November 20, 2003 which covers general concerns and responses to all questions.

DuPont fully supports the need for management's assessment of the effectiveness of the company's internal control over financial reporting as well as the independent accountants' attestation of such assessment. In our review of the proposed auditing standard the following matters were of special importance to us:

#### Cost

We believe that without permitting significantly greater reliance by the external auditor on the work of management and that performed by a company's internal audit staff, the cost of complying with this standard will become unnecessarily excessive. The same considerations for the external auditor's use of "reasonable professional judgment" in determining effectiveness of internal controls for smaller companies should extend to all companies.

#### Principle Evidence

We do not support this requirement without a better definition of "principle evidence," and believe that this aspect of the standard has the potential to create confusion and misunderstanding. If this is interpreted by the audit profession to mean more than 50 percent of the evidence must be directly obtained by them, an interpretation which we believe is certainly

possible, the cost of the engagement will increase to a level that far outweighs the benefit. In addition, this could cause companies like ours, with large well-qualified internal audit organizations, to reduce internal audit staff due to both the level of duplicative testing and the high overall cost. Therefore, we view the need for a clear definition of "principal evidence" to be very important.

We also believe that the auditor should rely on multiple sources of evidence in arriving at their opinion. These sources would include the results of management self-assessments, the scope and results of internal audit test work and finally the external auditor's own testing. The use of a "principle evidence" standard for the auditor should not discount these first two essential steps in a well-developed management evaluation process. To do so would result in duplicate testing and excessive audit fees.

#### Appropriate Reliance on Internal Audit and Management

The DuPont Company would clearly prefer that the standard limit the auditor's evaluation to a test of management's assessment process, supported by a testing of the design of controls and not to a test of the controls themselves. The standard as currently written has the potential to create a significant amount of duplicative testing and cost. At a minimum the auditor should be permitted to rely more heavily on the test work of management, including significantly broader reliance on the work of internal audit. The auditor also should be permitted to consider company core values and "tone at the top" and their associated impact on the control environment.

#### Reliance on Prior Audit Work

In many organizations controls supporting key business processes are identical from year to year. In such circumstances, the auditor should be able to utilize cumulative audit knowledge and judgment in determining the appropriate level of testing. In a well-controlled environment, an update or review to ensure no material change should be adequate.

#### Walkthroughs

We accept that walkthroughs are an important audit technique but we believe the standard as written requires too broad an application of this technique. Walkthroughs should be optional, primarily focused on routine processes and be limited to control activities. A standard definition of what constitutes a walkthrough should also be provided. Paragraphs 79 and 80 provide a standard for walkthroughs that would be very difficult for the auditor to execute in large multinational companies like ours and accordingly, be very costly.

External Auditors Evaluation of Audit Committee's Effectiveness

Given the recent and appropriate emphasis on eliminating consulting arrangements between companies and external auditors that could provide the opportunity for and/or appearance of a conflict of interest, we recommend that this requirement be dropped. In the best of circumstances the proposed evaluation process will be difficult and awkward to execute given the audit committee's responsibilities for appointing and approving fees for independent accountants. Under New York Stock Exchange *Corporate Governance Rules*, audit committees will be required to conduct an annual performance evaluation. We believe this process will be both objective and adequate to ensure effective oversight by audit committees.

DuPont appreciates the opportunity to provide the Board with its perspective on the approach to implement this important new audit standard.

Sincerely,

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