From: Eleanor Bloxham [ebloxham@thevaluealliance.com]
Sent: Friday, November 21, 2003 4:12 PM
To: Comments
Subject: Docket 008

Thank you for the opportunity to comment.

Comments on the Paragraphs:
The wording in paragraphs number 5 and 28 are important. I agree with the wording and do not believe it should be diluted.

Regarding paragraphs 21, 22, and 23: Because of the critical importance to many constituents, it should be made clear that the issues of materiality should also apply to FAS 131 segment reporting.

Regarding paragraphs 32, 33, 34 and 35, Having the same external auditor make "substantive recommendations as to how management may improve the design or operation of the company's internal controls" and also audit those controls does not represent independence. There are plenty of resources for managements beyond external auditors, including professional organizations like the Institute of Internal Auditors, and other audit related firms and consultancies who are well equipped to make "substantive recommendations as to how management may improve the design or operation of the company's internal controls". I strongly urge you to address this issue and not permit the external auditor to provide internal control services. Even if it passes the fact test (and human nature would make that difficult in terms of objectivity), it does not pass the appearance test. (Anonymous 22 shows the difficulties this can cause real people.)

The wording of paragraph 46 appears to be appropriate.

Regarding paragraphs 56, 57, 58 and 59: Having the external auditor who is hired by the audit committee evaluate the audit committee is inappropriate and may be meaningless (have no teeth). I agree with Mr. William McDonough's statement in the Financial Times that it is problematic. If a statement of evaluation of the audit committee is to be made and to be meaningful, it should be made by a third party approved by shareholders, in a separate evaluation, not by the external auditor. To have this evaluation made by the external auditor undermines the accountability of the external auditor to the audit committee.

Regarding paragraphs 60 -65: Although paragraph 63 alludes to FAS 131 segment reporting (arguably one of the most important sets of information to investors), the significance of segment reporting itself (as opposed to the accounts within a segment) is not adequately addressed. Because of the critical importance to many constituents, it should be made clear that the issue of "significance" not only applies to significant accounts but also to FAS 131 reportable segments.

Regarding paragraphs 190, 191, 192 and 193, all deficiencies and acts of fraud or illegality should be reported to the audit committee who has hired the external auditor for the purpose of their assessments. This information provides an early warning signal to the committee of potential cultural issues that may need to be addressed at the senior management level. At a minimum, audit committees should be the ones to direct the level of detail they should receive (beyond that currently specified in these paragraphs) and external auditors should be required to seek that guidance. The rules should not limit or imply a limit of information flow to the audit committee, nor should the external auditor determine the full extent of information they will provide based on their own interpretations of PCAOB rules.

Comments on the Questions:
I agree with the American Accounting Association's answer to question 4. New sentencing guideline recommendations in the area of compliance also support the idea that small companies will need control structures in place to meet those requirements as well.

Regarding question 5, specification would be useful. Commenter Anonymous 22 alludes to potential competency issues with perceived little recourse. Specification could help. Also, since the external audit team is hired by the audit committee, it would be appropriate for the audit committee to perform an annual evaluation of the audit team and its members (using input as required) - with a report to the supervisor of the partner in charge on issues to be addressed in team composition and skills required for future audits. This approach could be useful in improving the quality of audits especially given that a company's strategic areas of focus may change over time and require changing specialized expertise.

Regarding questions 6 and 7, the scope is appropriate and should specify obtaining direct evidence, and the guidance is useful.

Regarding questions 9 and 10, the requirements are justified.

Regarding questions 12 - 16, it is appropriate to say that "the auditor's own work must provide the principal evidence for the audit opinion."

Regarding questions 22 and 23, see comments on paragraphs 56, 57, 58 and 59 above.

Regarding questions 28 and 29, see comments on paragraphs 32 - 35. There are no circumstances under which the external auditor should provide internal control services. It is a conflict of interest and compromises external auditor independence by creating the appearance, if not the fact, of lack of independence. A similar analogy is external auditors' involvement in consulting services with respect to financial systems, which is now prohibited.

If you have any questions or comments on any of the above, please feel free to call me at 614-571-7020 or email ebloxham@thevaluealliance.com.

With best regards,

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