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Sent: Friday, November 21, 2003 4:21 PM
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Subject: Comments regarding PCAOB Rulemaking Docket Matter No. 008
Importance: High

Thursday, 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

On behalf of four leading EMS companies (Soletron, Flextronics, Celestica and Sanmina-SCI) thank you for the opportunity to express our views on the proposed *Auditing Standard , An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. We commend the Board for clarifying and providing specific guidelines regarding the work of external auditors in relation to Section 404 of the Sarbanes Oxley Act. We respectfully offer, and appreciate your consideration of, the following comments.

Evaluating Effectiveness of the Audit Committee

We support the PCAOB's notion to evaluate audit committee effectiveness. However, we offer the following comments:

- 1- We believe that it is the responsibility of the board of directors to evaluate the effectiveness of the audit committee, not the responsibility of the external auditor. We believe the evaluation of the audit committee by the external auditor presents a conflict of interest as the Sarbanes-Oxley Act makes the audit committee directly responsible for the appointment, compensation and oversight of the work of the external auditor. Therefore, we believe this standard needs to be removed.
- 2- If the final standard includes evaluation of the audit committee by the external auditors, we believe that the evaluation must be based on explicit measurable criteria to determine whether effectiveness requirements have been met. Therefore, we recommend developing an assessment checklist that indicates the level of a company's compliance with SEC and listing requirements.

Significant Deficiency & Material Weakness

The proposed standard has clarified and answered a number of our questions. However, we believe further clarification on the following items is needed:

- **Definition of "Senior Management"** In paragraph 126, which describes the circumstances regarded as significant deficiency there is an item referring to identification of fraud on the part of "senior management." We believe the term "senior management " needs to be specifically defined.
- **Evaluating Effectiveness of the Internal Audit Function.** We believe standards should include

specific criteria for such evaluation by external auditors. Criteria may include reporting structure, adequacy of audit group size, work experience and professional designation of audit staff.

- **Definitions.** We have some concerns regarding the clarity of the definitions of " significant deficiency " and the resulting consistent application by auditors. The proposed standard alters the definition of a " significant deficiency" and "material weakness" by substituting the term "more than a remote likelihood" for "relatively low level." These changes to definitions currently in practice may unnecessarily create confusion and inconsistency in application; therefore, we recommend that the board reconsider the definition of these terms.

Testing & Reliance on Work of Others

COSO Fundamentals Not Fully Considered. The SEC final rule on 404 requirements clearly refers to COSO as an acceptable framework. PCAOB has expressed the same position. However, in defining the level of retesting that external auditors are required to perform, and guiding auditors on the level of reliance placed on the work of internal auditors, the dynamics of COSO and its fundamentals have not fully been considered. In general, if the COSO concept of "ongoing monitoring" is performed adequately by management, then external auditors should be allowed to increase their reliance on the work done by management and the company's internal audit function.

For companies with strong COSO practices, the level of retesting recommended in the proposed rule appears excessive and the reliance on the work of internal auditors is inadequate. We believe this has opened the door to excessive audit fees and unnecessary audit procedures without a requisite benefit. A company with strong COSO framework should benefit from new standards, rather than be subject to the level of retesting proposed.

Work of Internal Auditors on Testing of Pervasive Controls is Valuable and Reliance is Warranted. We support the position of having external auditors perform certain tests without relying on others to perform a portion of their attestation work. However, we believe the notion that there could be no reliance on the work of others regarding pervasive controls and antifraud programs is ineffective and unnecessarily expensive without adding the expected value. We strongly believe that today's internal auditors possess more detailed knowledge and expertise with respect to internal controls than do external auditors. This in-depth knowledge of complex internal controls suggests that internal auditors are better prepared to test internal controls; and therefore the external auditor should be permitted to place a significant amount of reliance on the internal auditors' work. We believe that the proposed "no reliance in case of pervasive controls " creates a duplication of effort that increases costs without adding value.

Each Audit Should Build Upon the Work Performed in Prior Audits. We agree that external auditors must perform annual tests and procedures, which they believe are necessary to ensure a thorough understanding of controls and provide for the necessary assessment as to the effectiveness of those controls. However, the external auditors must be allowed the ability to exert judgment about whether the process under review is routine or does not entail a high-degree of subjectivity or judgment versus one that is either influenced by management judgment or out of the ordinary. Based on that determination, the external auditor should be allowed to determine whether the work performed in the prior year could be relied upon.

We believe the audit tests related to routine processes should involve updating procedures rather than performing complete retests without reliance on prior audit work. We strongly agree that retesting processes and controls over significant non-routine transactions, or those with a high degree of subjectivity or judgment, is warranted.

Sincerely,

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Chris Collier
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