

November 14, 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

We appreciate the opportunity to provide comments to the Public Company Accounting Oversight Board (PCAOB) regarding the Proposed Auditing Standard, “*An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*”.

We have two specific comments that we respectfully submit to the PCAOB for your consideration. Our suggestions address the following requirements of the standard:

- Level of testing required
- Effective date

**Level of testing required**

**Question 12 - To what extent should the auditor be permitted or required to use the work of management and others?**

We agree with the proposed standard allowing the auditors to rely on the work of management and others, however, we believe the prohibition against reliance in two of the areas, specifically the period-end financial reporting process and IT general controls, is not appropriate.

Excerpts from the draft standard currently state: *There are a number of areas in which the auditor should not use the results of testing performed by management and others, including:*

- *Controls that are part of the control environment, including controls specifically established to prevent and detect fraud...*
- *Controls over the period-end financial reporting process, including controls over procedures used to enter transactions totals into the general ledger; to initiate, record and process journal entries in the general ledger; and to record recurring and nonrecurring adjustments to the financial statement (for example, consolidating adjustments, report combinations and reclassifications).*

- *Controls that have a pervasive effect on the financial statements, such as certain information technology general controls on which the operating effectiveness of other controls depend.*
- *Walkthroughs...*

For large multi-national companies with internal audit departments that have a high degree of competency and objectivity, it seems overly prescriptive for the standard not to permit any reliance on the results of testing performed by management or others on the (1) period-end financial reporting process and (2) information technology general controls where management can demonstrate the objectivity and competence of those performing the tests. We feel it would be better to leave the degree of reliance up to the auditors in these two areas rather than having the standard state that no reliance can be placed.

### **Effective Date**

We believe a delay in the effective date of the rules consistent with the timing of the issuance of the final standard by the PCAOB is necessary to provide additional time for companies and their auditors to adjust work already completed for any changes made to the proposed standard and to adequately develop testing plans, train staff and document the performance of the required testing.

Assuming the PCAOB issues its final standard by the end of December, companies with non-calendar year ends (e.g. June 30<sup>th</sup> and September 30<sup>th</sup>) and their auditors will be operating under compressed time frames in order to comply with the final standard. If the final standard is issued any later than December, the issue will be further exacerbated. Many consultants are recommending that companies should be complete with documentation and testing three to six months prior to yearend to ensure adequate time for the audit process, issue resolution and any desired remediation activities; a June 30 or September 30 year end company following this best practice would have very little time to comply, if the final standard is issued in late December. Accordingly, assuming a final standard is issued in December, we recommend that the Section 404 reporting requirements be effective for fiscal years ending after December 15, 2004.

Thank you for considering our comments on the proposed auditing standard. We would be happy to discuss our concerns in more detail, if desired.

Sincerely,

/s/ Brent A. Woodford

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