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November 21, 2003

VIA E-MAIL

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 2006-2803

Re: PCAOB Rulemaking Docket Matter No. 008

Dear Sir/Madam:

Sun Life Financial Inc. appreciates the opportunity to submit written comments to the Public Company Accounting Oversight Board (the "Board") regarding PCAOB Release No. 2003-017, Proposed Auditing Standard – An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements (the "proposed standard"). We have focused our comments on four of the Board's questions, namely, Questions 17, 18, 22 and 23. We will address Questions 17 and 18 together, and Questions 22 and 23 together.

Question 17.

Will the definitions in the proposed standard of significant deficiency and material weakness provide for increased consistency in the evaluation of deficiencies? How can the definitions be improved?

Question 18.

Do the examples in Appendix D of how to apply these definitions in various scenarios provide helpful guidance? Are there other specific examples that commentators could suggest that would provide further interpretive help?

Response to Questions 17 & 18.

We do not believe that the Board's proposed definition of "significant deficiency" will provide for increased consistency in the evaluation of deficiencies. Under the Board's proposed definition at page A-9 of the proposed standard, "[a] significant deficiency . . . could be a single deficiency, or a combination of deficiencies, that results in more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential in amount will not be prevented or detected." (underlining added). The phrase "more than inconsequential in amount' is ambiguous and the examples provided at Exhibit D of the Release do not provide any helpful interpretive guidance as to the meaning of that phrase. We believe that the Board's use of the phrase "more than inconsequential in amount" is likely to result in differing assessments being made in similar factual situations by practitioners. We also believe that the phrase "more than inconsequential in amount" is fundamentally inconsistent with well-established accounting, auditing and attestation standards premised on the concepts of fair presentation, materiality and reasonable assurance.

We also note that the Board's proposed definitions of "significant deficiency" and "material weakness" are different than the definitions used by the Securities and Exchange Commission (the "SEC") in its Release No. 33-8238 pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act"). In Release No. 33-8238, the SEC stated that the term "material weakness" has the same meaning as in the definition under GAAS and attestation standards, and that the term "significant deficiency" has the same meaning as the term "reportable condition" as used in AU § 325 and AT § 501. The Board's and the SEC's use of different definitions of "material weakness" and "significant deficiency" is confusing. Should management use the SEC's definitions or the Board's definitions? In our view, management is required to follow SEC guidance when complying with its obligations under Sections 404 and 302 of the Act and SEC rules promulgated thereunder, while the auditor will be required to follow the Board's definitions. How will management and the auditor reconcile the definitional differences?

Further, we believe that the following language in the Board's proposed standard as it relates to the definition of "significant deficiency" will promote inconsistency in the evaluation of deficiencies. At page 15 of the proposed standard, the Board states: "[u]nder the proposed auditing standard, an internal control deficiency (or a combination of internal control deficiencies) should be classified as a *significant deficiency* if, by itself or in combination with other internal control deficiencies, it results in more than a remote likelihood of a misstatement of the company's annual or interim financial statements that is more than inconsequential in amount will not be prevented or detected." (underlining added). As noted above, however, the Board defines "significant deficiency" at page A-9 of the proposed standard as follows: "[a] significant deficiency . . . could be a single deficiency, or a combination of deficiencies, that results in more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential in amount will not be prevented or detected." (underlining added). At page A-2 of the proposed standard, the Board states: "[t]he standards use the word 'should' to indicate obligations that are presumptively mandatory. . . . The Board uses the words 'may,' 'might,' 'could,' or other terms and phrases to describe actions and procedures that the auditor has a professional obligation to consider." We anticipate confusion among practitioners by the Board's use of the words "could" and "should" in different places in the proposed standard in relation to an auditor's obligation to classify an internal control deficiency as a "significant deficiency."

In view of the foregoing, we urge the Board to adopt the same definitions of "significant deficiency" and "material weakness" as recognized in SEC Release No. 33-8238. By doing so, the Board would promote consistency with SEC guidance and well-established auditing and attestation standards concerning internal control over financial reporting.

Question 22.

Is it appropriate to require the auditors to evaluate the effectiveness of the audit committee's oversight of the company's external financial reporting and internal control over financial reporting?

Question 23.

Will auditors be able to effectively carry out their responsibility to evaluate the effectiveness of the audit committee's oversight?

Response to Questions 22 & 23.

We do not believe that it is appropriate for the auditors to evaluate the effectiveness of the audit committee in light of the purposes of Section 301 of Act, nor do we believe that auditors could effectively carry out this responsibility. Pursuant to Section 301 of the Act, Congress made the audit committee directly responsible for the appointment, compensation, and oversight of the auditor. In its Release No. 33-8220 pursuant to Section 301 of the Act, the SEC stated as follows:

> One of the audit committee's primary functions is to enhance the independence of the audit function, thereby furthering the objectivity of financial reporting. The Commission has long recognized the importance of an auditor's independence in the audit process. The auditing process may be compromised when a company's outside auditors view their main responsibility as serving the company's management rather than its full board of directors or its audit committee. This may occur if the auditor views management as its employer with hiring, firing and compensatory powers. Under these conditions, the auditor may not have the appropriate incentive to raise concerns and conduct an objective review. Further, if the auditor does not appear independent to the public, then investor confidence is undermined and one purpose of the audit is frustrated. One way to help promote auditor independence, then, is for the auditor to be hired, evaluated and, if necessary, terminated by the audit committee. This would help to align the auditor's interests with those of shareholders.

We are unable to reconcile this SEC commentary with the requirement in the Board's proposed standard that the auditor evaluate the effectiveness of the audit committee. Just as the auditor was perceived to be beholden to management before passage of the Act, the auditor will now be perceived to be beholden to its new employer, the audit committee, and will not be expected to raise concerns and conduct an objective review of audit committee effectiveness. As a result, auditor independence will once again be called into question and public confidence in auditing work will be undermined. We believe that this is exactly the type of apparent – if not actual – conflict of interest that Congress was attempting to eradicate when it passed Section 301 of the Act.

To further public confidence in the integrity of financial statement and internal control audits, we urge the Board to abandon any requirement that the auditor evaluate the effectiveness of the audit committee.

We appreciate the opportunity to express our views and I would be pleased to discuss our comments or answer any questions that you may have. Please do not hesitate to contact me regarding our submission.

Very truly yours,

/s/ Robert C. Salipante

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