

## AMERADA HESS CORPORATION

(212) 997-8500 TELEPHONE  
(212) 536-8141 FAX

1185 AVENUE OF THE AMERICAS  
NEW YORK, NY 10036

November 21, 2003

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

Re: PCAOB Rulemaking Docket Matter No. 008

Dear Ladies and Gentlemen:

We are pleased to respond to the proposed auditing standard, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. Amerada Hess Corporation (the Corporation) is a global, independent energy company with worldwide exploration and production activities and domestic refining and marketing operations.

Specific responses to certain of the Board's questions are attached in Appendix 1. Our responses are keyed to the numbered question in the request for public comment. We agree with the proposed auditing standard as drafted for those areas where we have not responded to one of the Board's questions. Provided below are general observations on the proposed auditing standard:

- We believe the proposed auditing standard requires duplication of work by an independent auditor and management not contemplated by Congress when it passed Section 404(b) which requires an independent auditor to attest to, and report on, the assessment made by management of the issuer. We believe there is a difference in the elements of work that management must do to establish and report on processes and controls and the work done by the independent auditor when attesting to management's assessment.

The proposed auditing standard provides significant guidance for auditors in determining the scope of work necessary to support the required attestation. The guidance for management's assessment seems to create a duplication of work. The proposed standard appears to not only require management to document all significant processes and controls and perform walkthroughs but also requires management tests of all key controls to support its assessment. The auditor is required to review management's documentation of significant processes and controls, perform independent walkthroughs and perform similar tests of all key controls to support the auditor's conclusion. We do not believe the standard should require management and its auditor to perform similar

testing on all key controls. While this duplication adds costs it does not seem to add additional support to the auditor's attestation. This duplication appears inconsistent with the Section 404 (b) requirement to have auditors attest only to management's assessment. We understand the Board's desire to have an integrated audit and have separate audit opinions for the financial statements and the internal controls over financial reporting. We therefore believe the testing of key controls should be performed solely by the auditor in accordance with requirements established in the auditing standard. Guidance for management's evaluation of the effectiveness of internal control should exclude the need for duplicate testing. Management should be required to design effective control processes, including monitoring controls, document all significant processes and controls and the effectiveness of controls should be evaluated solely by the performance of a walkthrough and the ongoing daily or periodic monitoring of the processes.

- If the proposed auditing standard is adopting substantially in its current form to require duplicate testing by management and the auditor, the requirement for the independent auditor to obtain sufficient evidence about the design and operating effectiveness of controls related to all financial statement assertions for all significant accounts and disclosures in the financial statements will cost significantly more than the benefit gained by implementing such a standard. We believe the independent auditor should be able to use professional judgment when determining the scope of work in an audit of internal control over financial reporting. Specifically, we believe the final auditing standard should permit the independent auditor to rely to a greater extent on work performed by internal audit and others and the outcome of procedures performed in conjunction with the audit of the financial statements, particularly in the areas of disclosures, significant estimates and significant non-routine transactions.
- We believe the independent auditor should not be required to evaluate the effectiveness of the audit committee. Rather we believe the independent auditor should consider its view of the audit committee's effectiveness when determining the scope of work in an audit of internal control over financial reporting.

\* \* \* \* \*

Thank you for considering our views. We would be pleased to answer any questions or discuss these issues further. I can be reached at (212) 536-8550.

Very truly yours,

/s/ John Y. Schreyer

John Y. Schreyer  
Executive Vice President  
and Chief Financial Officer

## Responses to Questions

We have responded to questions 6, 12, 13, 14, and 15 assuming the proposed auditing standard is adapting substantially in its current form to require duplicate testing by management and the auditors.

6. Is the scope of the audit appropriate in that it requires the auditor to both evaluate management's assessment and obtain, directly, evidence about whether internal control over financial reporting is effective?

If the final standard requires an audit of internal control over financial reporting, we believe the independent auditor should have the ability to exercise professional judgment when determining the extent of direct evidence necessary regarding the design and operating effectiveness of controls related to all financial statement assertions for all significant accounts and disclosures in the financial statements.

8. Is it appropriate to state that inadequate documentation is an internal control deficiency, the severity of which the auditor should evaluate? Or should inadequate documentation automatically rise to the level of significant deficiency or material weakness in internal control?

We believe inadequate documentation should not automatically rise to the level of significant deficiency or material weakness. The focus should be on the existence of effective operating controls. Documentation by itself does not contribute to the prevention or detection of material misstatements in the financial statements.

10. Is it appropriate to require that the walkthrough be performed by the auditor himself or herself, rather than allowing the auditor to use walkthrough procedures performed by management, internal auditors or others?

We believe the independent auditor should be able to rely on walkthrough procedures performed by internal audit, and in limited circumstances, management.

11. Is it appropriate to require the auditor to obtain evidence of the effectiveness of controls for all relevant assertions for all significant accounts and disclosures every year or may the auditor use some of the audit evidence obtained in previous years to support his or her current opinion on management's assessment?

We do not believe it is necessary to obtain evidence for all relevant assertions for all significant accounts and disclosures every year. Evidence obtained in prior years plus the outcome of procedures performed in conjunction with the

audit of the financial statements should be considered in determining the level of work to render an opinion on internal control over financial reporting.

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

We believe auditor judgment should determine the extent to which the work of others is relied upon. Factors to consider include the quality of the control environment and the competency and independence of the individuals performing the work.

13. Are the three categories of controls and the extent to which the auditor may rely on the work of others appropriately defined?

We agree with the three categories of controls. However, we do not believe it is cost effective to require management and the independent auditor to separately test IT general controls every year.

14. Does the proposed standard give appropriate recognition to the work of internal auditors? If not, does the proposed standard place too much emphasis and preference on the work of internal auditors or not enough?

We believe the proposed standard does not give enough recognition to the work of internal audit. The independent auditor should assess the capabilities and independence of internal audit in determining the level of reliance to be placed on internal audit's work.

15. Is the flexibility in determining the extent of reperformance of the work of others appropriate, or should the auditor be specifically required to reperform a certain level of work (for example, reperform tests of all significant accounts or reperform every test performed by others that the auditor intends to use)?

We believe the independent auditor should use professional judgment in determining the extent of reperformance of work performed by others.

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 commenters could suggest that would provide further interpretive help?

We do not believe the examples in Appendix D provide helpful guidance. We believe management and its auditor should determine if a deficiency is a significant deficiency or a material weakness using the definitions provided in paragraphs 7 through 9. These definitions should be applied to the specific facts and circumstances of the individual deficiency. We appreciate the Board's desire to provide additional guidance, however we believe the use of the limited fact patterns in the examples may create inappropriate minimum thresholds for significant deficiencies and/or material weaknesses.

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?

As stated in our opening comments, we do not believe it is appropriate to require the independent auditor to evaluate the effectiveness of the audit committee due to the inherent conflict of interest caused by the audit committee's role to hire, fire and set the fees for the independent auditor.

24. If the auditor concludes that ineffective audit committee oversight is a material weakness, rather than require the auditor to issue an adverse opinion with regard to the effectiveness of the internal control over financial reporting, should the standard require the auditor to withdraw from the audit engagement?

We do not believe the standard should require the auditor to withdraw from the engagement in that situation, although the auditor may choose to do so.