

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  
Proposed Auditing Standards – An Audit of Internal Controls Over Financial  
Reporting Performed in Conjunction with an Audit of Financial Statements**

Members and Staff of the Public Company Accounting Oversight Board:

Thank you for the opportunity to comment on the proposed standards on an audit of internal controls over financial reporting performed in conjunction with an audit of financial statements. PSEG is a \$21 billion energy and energy services company with three major subsidiaries: PSE&G, a regulated electric and gas distribution business, PSEG Power, a major US power producer and PSEG Energy Holdings, the parent of PSEG's other unregulated businesses including: PSEG Global a major international developer and operator of power generation and distribution systems throughout the world, and PSEG Resources, which invests in energy-related financial transactions. As a member company of the Edison Electric Institute (EEI) we support the comments of the EEI but offer the attached request for clarification. We believe such clarification would make the standards more effective by reducing potential misinterpretation.

I would be please to discuss my comments with the Board or its staff at your convenience.

Sincerely,

Kathy A. Fudali  
PSEG Services Corporation  
Director, Internal Controls

**PSEG Service Corporation**  
**Request for Clarification**  
**Re: PCAOB Release No. 2003-17**

Items	Page #	Std #	Clarification Request
1	P9 A-33	N/A 88	Please provide clarification on whether management is required to document the necessary qualifications of the people performing the control for the control to function effectively.
2	P9	N/A	Please provide clarification on what is meant by needing to document “the process that management used to assess the effectiveness of the internal control over financial reporting.”
3	P11/ P23	N/A	In the case of companies that file consolidated 10Qs and 10Ks and have a fiscal year-end after June 15, 2004, is it the intent of the PCAOB to have management include in their 2004 assessment the internal controls over financial reporting for subsidiaries that individually are only debt registrant.
4	P11	N/A	PSEG requests a delay in the effective date of Section 404 of the Sarbanes-Oxley Act due to the delay in the issuance of the final Standards by the PCAOB.
5	P12	N/A	<p>Please clarify whether the term ‘significant control’ is the same as the term ‘key control’.</p> <p>Does management need to test key controls/significant controls or follow the PCAOB requirement that the auditor test controls that are important to fairly present each ‘relevant assertion’?</p>
6	P17/ A-25	N/A 56-58	<p>When the activities and level involvement of audit committees will vary depending upon the company and the effectiveness of the company’s control environment, additional clarification and/or criteria for management to use to assess the effectiveness of the audit committee is required with respect to:</p> <ul style="list-style-type: none"> <li>• How well the audit committee and management understand the responsibilities of the audit committee.</li> <li>• Acceptable levels of involvement and interaction with the internal and independent auditor</li> </ul> <p>Amount of time that the audit committee devotes to control issues, to committee activity.</p>
7	P17	N/A	Please clarify what is the appropriate period of time for a prior material misstatement, which is subsequently corrected (and disclosed) to be in effect for it to be no longer considered a material weakness.
8	P22	N/A	<p>Please provide additional guidance of what testing is required quarterly for Section 302 and how it aligns with 404 testing.</p> <p>If SarbOx 404 testing results in the identification of a material weakness that will be remediated by management, will it have to be disclosed in the 10Q under Section 302?</p>

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<b>Items</b>	<b>Page #</b>	<b>Std #</b>	<b>Clarification Request</b>
9	A-23/24	50/53	<p>Please clarify whether a company can consider a shared services corporate environment as an activity vs. at a company-level environment.</p> <p>Please clarify whether management needs to evaluate company-level controls or just the auditor.</p>
10	A-35	95	<p>Please clarify whether management can use a smaller sample size for testing than the auditor.</p> <p>Please clarify whether management is required to test year-end processes if they are not significantly different than quarterly processes.</p>
11	A-43	126	<p>Please clarify method to test the effectiveness of the Company's Internal Audit function.</p> <p>Re: Regulatory Compliance – Please clarify what is meant by regulatory compliance function and what framework should be used to assess the effectiveness of regulatory compliance.</p> <p>The Proposed Standards state that 'identification of fraud of any magnitude on the part of senior management' is at least a significant deficiency and a strong indicator that a material weakness exists. Does the PCAOB foresee the submission of a fraudulent expense sheet by a member of senior management rising to the level of a material weakness?</p>
12	A-50	150/ 151	<p>Please clarify period of time that is adequate to determine whether, as of the end of the fiscal year, the design and operation of internal control over financial reporting is adequate (how long does a remediated process to correct a material weakness have to be in effect for it not to be disclosed?)</p>
13	A-56	170	<p>Please clarify what regulatory compliance is in scope for 404; and what standards should be used to assess compliance.</p>
14	A-93	<i>Ex B-1</i>	<p>We noted that in the example the sample size is 25. Please clarify, whether there should be a statistical basis to determine the size of the sample for a large homogeneous population.</p>