



FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Office of the Secretary,
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803
comments@pcaobus.org

**Re: PCAOB RULEMARKING DOCKET MATTER NO. 008
Proposed Auditing Standard--An Audit of Internal Control Over Financial Reporting
Performed in Conjunction with an Audit of Financial Statements**

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants (the Committee) has reviewed and discussed the above referenced proposed auditing standard. As requested in the proposal, the Committee is responding to the thirty-one questions contained therein.

- Question 1: The Committee had no issue with this language.
- Question 2: The Committee felt that the auditor **should be prohibited** from performing an audit of internal control without also performing an audit of the financial statements. The Committee felt that the auditor should do both; that the functions are integrated.
- Question 3: Requiring the auditor to perform comparable work would **not** be appropriate. This would be confusing to the reader of the statements. A complete audit should be performed.
- Question 4: The Committee believes that the needs of small and medium-sized issuers have been adequately considered. The Committee noted that given the wide diversity of small and medium-sized issuers more specific direction would be difficult to disseminate and the Board is correct to rely on the auditor's professional judgment.
- Question 5: The existing professional literature clearly specifies that audits are to be performed by persons having adequate training and proficiency and those assistants are to be properly supervised. Therefore, the Board does not need to specify the level of competency and training of audit personnel.

Question 6: Yes, the scope seems appropriate. The auditor cannot evaluate management's assessment without obtaining supporting evidence.

Question 7: The Committee was divided on this issue. Approximately six of the members felt that the Board should be providing guidance and a framework to the auditor so that the auditor would be able to exercise professional judgment in assessing whether management's documentation provided reasonable support for its assessment.

The remaining six members thought that criteria was appropriate but did not agree with listing specific items that met the requirement of adequate documentation paragraph 43 of the proposed standard. Instead the standard may address the issue of determining whether management's documentation provides reasonable support for its assessment by stating something like: "When determining whether management's documentation provides reasonable support for its assessment, the auditor should evaluate whether such documentation exists to support the auditor's opinion on internal controls over financial reporting".

The entire Committee felt that the "checklist" approach was not appropriate because it encourages preparers to focus only on the listed items. The bullet points following paragraph 43 might be better presented in an appendix as an example of points that management should include in its documentation of its assessment of internal controls

Question 8: The Committee agreed that the auditor **should** be the one to evaluate the severity of inadequate documentation and further, that the inadequacy should **not** automatically rise to some arbitrary level; the auditor should use professional judgment to determine whether the deficiency gives rise to a significant deficiency or a material weakness in internal control.

Question 9: The Committee agrees that walkthroughs should be performed. However, the Committee is concerned about the language in paragraph 79, which states that "the auditor should trace ALL types of transactions...both recurring and UNUSUAL". The Board should provide guidance on what they mean by "ALL" and "UNUSUAL". The Committee believes it is not reasonable to require auditors to trace ALL types of transactions, rather to focus on significant areas. The Committee noted that one might be dealing with an insignificant unusual transaction within a significant process that actually did not need a walkthrough.

Question 10: The Committee agreed that the auditor should do the walkthrough so that a thorough understanding of the internal control process is obtained.

Question 11: The Committee believes that it is appropriate for the auditor to use some of the audit evidence obtained in previous years to support his or her current opinion on management's assessment.

Question 12: The Committee believes that the auditor should be permitted (not required) to use the work of others. The auditor should rely on professional judgment.

- Question 13: The Committee feels that the definition of the three categories of controls and the extent to which the auditor may rely on the work of others is appropriate and is consistent with existing professional literature.
- Question 14: The proposed standard acknowledges the professional status and work of the internal auditor. The auditor's reliance on their work is a matter of professional judgment depending on whom the internal audit function reports to and what level of standards they enforce.
- Question 15: The Committee believes that the flexibility allowed in the proposed standard is appropriate which is that the auditor should use professional judgment to determine the extent of any re-performance.
- Question 16: The Committee agrees that the auditor should obtain the principal evidence through his or her own work.
- Question 17: The Committee felt that the Board should provide definitions of "inconsequential in amount" and "material misstatement" used in the summary paragraph at the end of page 15 and the top of page 16. There seems to be a great deal of latitude between those concepts.
- Question 18: The Committee agrees that the scenarios in Appendix D are helpful. They would like to see more examples of internal control deficiencies.
- Question 19: The Committee believes that the auditor should evaluate the severity of all identified internal control deficiencies.
- Question 20: The Committee was somewhat divided on this issue. Many felt that some internal control deficiencies are so minor that they can be handled in verbal communication; however, the entire Committee agreed that documentation of the communication, at least in the workpapers, should be required.
- Question 21,
22, & 23: The Committee felt very strongly that the auditor could **not** evaluate the audit committee's *effectiveness*. Effectiveness cannot be measured. Thus, the Committee feels that the proposed standard would be more appropriate if it required the auditor to "consider" whether the audit committee is appropriately addressing and monitoring relevant issues in a timely fashion and on a consistent basis.

The Committee agreed that the indicators of material weakness were appropriately classified but would eliminate the term "ineffective" from the third bullet point in paragraph 126.

- Question 24: No, the standard should not require the auditor to withdraw from the engagement. First, ineffective audit committee oversight does not necessarily result in financial statements that are unfairly presented or not in accordance with GAAP. Second, withdrawal will not solve the company problem; working with the audit committee to improve their performance would better serve the interests of shareholders.
- Question 25: The Committee agreed with the proposed standard that the existence of a material weakness that requires the auditors to express an adverse conclusion is consistent with the reporting model for management.
- Question 26: The Committee believes that there are circumstances where a qualified “except for” conclusion would be appropriate. For example, suppose that management asserts that their internal controls are operating correctly and the auditor finds some small deviation which could be minor and it is effectively mitigated by other controls. The auditor should be able to mention the exception without having to give an adverse opinion.
- Question 27: The Committee strongly agrees with the proposed standard’s position.
- Question 28: The Committee believes that specific guidance should be provided. It would be helpful to include examples of such actions in the standard.
- Question 29: All internal control-related non-audit services should be prohibited; otherwise, the auditor is monitoring his own work.
- Question 30 & 31: The Committee agrees with the proposed standard.

ADDITIONAL ITEMS FOR CONSIDERATION:

The Committee also wanted clarification regarding the reference to “COSO” in the introductory paragraph in the example Auditor’s Report in Appendix A. What other criteria would be appropriate? What criteria would be appropriate for small and medium-sized firms?

The Committee appreciates the opportunity to share our views and concerns. Members of the Committee are available to discuss any questions you may have regarding this communication.

Very truly yours,

Lizette Pena, CPA, Chair

Committee members coordinating this response:

Kathryn M. Means, CPA, Vice-Chair

Joel S. Baum, CPA