
From: Gagnon, Matthew [Matthew.Gagnon@marriott.com]
Sent: Thursday, April 24, 2003 6:20 PM
To: Comments
Subject: N/A - PCAOB Release No. 2003-006

Per your recent release, 'Establishment of interim professional audit standards'. It appears that we are to expect the Commission's approval of the interim standards no later than April 26, 2003. Based on the definition of the attest standards (rule 3300T), it appears that the standards will include the existing SSAE 10, but not the exposure draft for AT501. Is this assumption correct?

Under either the existing or amended AT501 (assuming proposed amendments are ratified), the standards are silent as to the criteria for the review. Will the PCAOB (the Board) specify the criteria which management and external auditors must apply in their assessments of internal controls required under section 404 of the Act?

As I indicated in an earlier comment to the Board, attached below, I have seen a wide variety of approaches adopted by my peers whose companies are likewise subject to the Act. Over the past month, I have discussed and shared our approach with other large public companies and while some have subsequently altered their approach to incorporate some of our assumptions, others feel it is overkill.

I feel the nature and extent of work we are performing is appropriate based on the conclusions I believe the act requires. At the same time, I do not want to subject my internal clients to an excessive burden, in these difficult times.

I do of course appreciate the magnitude of the effort that the Board is making on a very tight schedule, but I would appreciate any information you can share at this time relative to the criteria you will require as a basis for reporting on internal control over financial reporting.

Regards,

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From: Gagnon, Matthew [mailto:Matthew.Gagnon@marriott.com]
Sent: Monday, March 17, 2003 11:44 AM
To: 'rsvp@sec.gov'
Subject: Not a candidate. An offer to assist the PCAOB.

I am not a candidate for the chairperson of the Public Company Accounting Oversight Board (PCAOB), but I could not see a better way to get a message to the current members of the board. Please pass this on to the PCAOB's current members for consideration.

Who am I:

I am the Director of Information Resources Internal Audit for Marriott International, Inc., a CPA and a CISA. I have been working in the audit profession for a dozen years for Ernst & Young and for several large US corporations.

As a CPA and an internal auditor, I am bound by professional standards of practice and subject to

a code of ethics. My employer also has a formal ethical conduct policy which requires associates to adhere to high ethical standards as we conduct business to protect other associates, the company and its shareholders.

Having worked with the highest caliber professionals throughout my career, I have seen ethical policy personified in many of my peers, supervisors and executives, but I have not been shielded from the reality that unethical and fraudulent practices are employed by some.

The Problem:

Though I do not believe the propensity to defraud has increased, I do believe that the recent corporate failures help to solidify the case for significant reform of corporate governance and financial reporting that has been building for some time. The Sarbanes-Oxley Act (the Act), appears to provide corporate America and professional auditors a push toward consistent policy and accountability for transparency and reliability of financial reporting, but it is the studies provided for in the act and criteria as yet to be determined by the PCAOB that will be the glue that holds this together.

As you may have guessed, one of my concerns, as I am sure is a concern of my colleagues in the practice of internal auditing, is that the glue with respect to section 404 of the Act will be too inflexible or too weak.

Having participated in many discussions on the subject with the big four accounting firms and internal auditors of other major US corporations, I have heard of many different strategies employed as we prepare for the reporting requirement. Companies' efforts, absent clear direction from the PCAOB, will lead companies to varied solutions many of which may not provide adequate support for required assessments of internal controls. To ensure that companies can develop consistent approaches to meet reporting requirements and have time to implement these approaches, guidance should be provided as soon as reasonably possible.

To ensure that corporations and public auditors develop consistent approaches for compliance with section 404 of the Act, the PCAOB should provide very clear guidance on the criteria to be applied, documentation standards, testing standards, and reporting requirements for the 2003 reporting. As we will learn from this process, the PCAOB would be wise to stress that the requirements will be reevaluated and improved where appropriate for future reports.

The SEC and PCAOB appear to have the attention of the AICPA and its standards boards. I tend to agree that the existing and recently revised standards promulgated by the AICPA provide the basis for effective 'reporting on an entity's internal control over financial reporting', but the interpretation of the standards, and specific criteria for the assessment of internal controls is not clear and those with whom I have had occasion to discuss 404 approaches have various expectations with respect to the ultimate criteria (e.g. pure COSO, COSO with control objectives specified by management, COSO with financial statement assertions (SAS78) for significant financial statement captions, SAS 70 approach limiting scope to control objectives specified by management, etc.).

The Solution:

The apparent imminence of the escalation of the conflict with IRAQ to war, concerns over the US economy and the political pressure I am sure the SEC and PCAOB are exposed to will undoubtedly make for a challenging environment to establish and enforce this significant requirement for US corporations, but be assured, internal auditors are not only bracing for it, we are moving ahead.

To spare the shareholders the cost of inefficient/misdirected efforts to comply with section 404 of the Act, I implore the PCAOB to establish and issue specific guidance for achieving compliance with the Act. I also ask that the PCAOB issue the guidance in an exposure draft to allow management, internal auditors and public accountants ample time to evaluate and challenge the proposed process. Issuing under an exposure draft would enable the PCAOB to issue more timely, while continuing to work internally to improve the process and consider the input of the many professionals that will be affected by this process.

I appreciate your consideration of this input and would welcome the chance to share, with the

PCAOB, our approach and the status of our efforts to prepare for the requirements of the Act.

Sincerely,

Matthew Gagnon 

IR Audit Director

Marriott International, Inc.

Rule 3300T - Interim Attestation Standards Rule 3300T governs the conduct of engagements that (i) are described in the

ASB's Statement on Standards for Attestation Engagements No. 10 (Codification of Statements on Auditing Standards, AT § 101.01), and (ii) relate to the preparation or issuance of audit reports for issuers. Registered public accounting firms involved in such engagements are required to comply with the ASB's Statements on Standards for Attestation Engagements, and related interpretations and AICPA Statements of Position, as in existence on April 16, 2003.

As the Note to Rule 3300T clarifies, the Board intends that, during the period preceding the mandatory registration date, the Interim Attestation Standards apply to public accounting firms that would be required to be registered after the mandatory registration date and to associated persons of those firms, as if those firms were registered public accounting firms.