

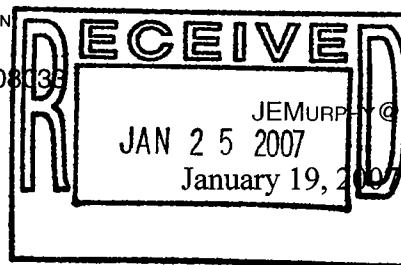
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Public Company Accounting Oversight Board
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RE: PCAOB Rulemaking Docket Matter No. 21, Release 2006-007

Dear Sir/Madam:

This letter is in response to the above-captioned release and the opportunity to submit comments on the Proposed Auditing Standard: "An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements." Specifically I would like to suggest a change to paragraph, 79, under the heading "Strong Indicators of Material Weaknesses."

The last bullet of this paragraph states

"For complex entities in highly regulated industries, an ineffective regulatory compliance function. This relates solely to those aspects of the ineffective regulatory compliance function in which associated violations of laws and regulations could have a material effect on the reliability of financial reporting."

A better formulation would be:

"An ineffective compliance and ethics function, especially in complex entities in highly regulated industries. This relates to those aspects of the ineffective compliance and ethics function in which associated violations of laws and regulations could have a material effect on the reliability of financial reporting."

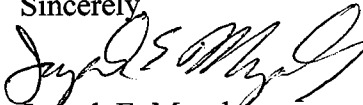
These changes cover several important points. First, the reference to a "regulatory compliance program" uses an outdated term. The Federal Sentencing Guidelines, chapter 8, now define the term as an "ethics and compliance program," and provide a definition that is generally accepted throughout industry. There is nothing to be gained by using an undefined, outdated term in this context.

Second, while it makes sense for the PCAOB to keep to its mission of addressing accounting issues, there is really no basis in logic or experience for limiting the focus to "complex entities in highly regulated industries." While it is certainly true that financial fraud has hit entities meeting this description, such fraud has also shown up in industries without such regulation (e.g., numerous high technology companies, small home appliances – Sunbeam comes immediately to mind), and there can be no doubt that even simple entities can engage in financial fraud. Compliance and ethics programs are key elements in any entity's efforts to prevent fraud.

Third, the use of the word “solely” is overkill. If a compliance and ethics program is ineffective this may show up in many ways. The auditor may not know which of these defects will relate to financial fraud until after the harm has occurred. Better just to ask the auditor to point out where weaknesses occur, without being tied to an unrealistically circumscribed standard.

Thank you for this opportunity to comment and I hope this comment is useful.

Sincerely,



Joseph E. Murphy