February 23, 2007

Office of the Secretary, PCAOB
1555 K Street N.W.
Washington, DC 20006-2803
Attn: Laura Phillips, Deputy Chief Auditor

Reference: Rulemaking Docket Matter No. 021

Ms. Phillips,

Alcoa Inc. would like to provide feedback on the proposed changes to *Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements.*

Alcoa is the world's leading producer of primary aluminum, fabricating aluminum, and alumina, and is active in all major aspects of the industry: technology, mining, refining, smelting, fabricating and recycling. Alcoa is a global company with 129,000 employees operating in 42 countries.

Alcoa management supports Section 404 of the Sarbanes Oxley Act and believes that the focus on internal controls has enhanced investor confidence in financial statements and disclosures. The costs associated with implementing Sarbanes Oxley requirements, however, has been greater than expected. We are encouraged by the Board's decision to propose changes to the audit of internal controls in order to achieve efficiencies and reduce costs. We believe that the following comments related to the proposed changes should be considered and are essential to reducing compliance costs while ensuring that a strong control environment is maintained.

1. Focusing the Audit on Matters Most Important to Internal Control

We agree that the audit of internal controls have more recently been more focused on detailed testing at the lowest level of the organization and that an emphasis on following a top down approach is warranted. However, we believe that the proposed standard does not clearly express at what precision the company-level controls should be operating and how the effectiveness of these controls impact the reduction or elimination of other controls. We recommend that a clear definition of precision be developed and included in new standard in order to provide better guidance to all constituents regarding how and when testing at the process level can be reduced.

2. Revising the Definitions of Significant Deficiency and Material Weakness

We believe that the process of evaluating deficiencies is the most challenging aspect of an audit of internal controls. Although we feel that professional judgment must be exercised when evaluating deficiencies, this concept does not appear to be embraced by external auditors. Instead, the evaluation process focuses primarily on quantitative measurements which are defined in the auditors' "Framework for Evaluating Control Exceptions and Deficiencies" (Framework) issued in December 2004 as follows:

- Potential misstatements equal to or greater than 20% of overall annual or interim financial statement materiality, whichever is appropriate, are presumed to be more than inconsequential. Financial statement materiality is defined as 5% of pre-tax income before minority interest.

Because of the concentration on quantitative factors, we do not believe that the proposed changes to the terms "more than remote likelihood" and "more than inconsequential" are appropriately defined to be applied in practice. Without additional guidance on what constitutes a reasonably possible likelihood, we do not believe that the change will improve the level at which auditors are evaluating likelihood during issue evaluation. Furthermore, we do not believe that the definition of "significant" which replaces the term "more than inconsequential" is adequate to provide the auditors with the necessary guidance in evaluating deficiencies. Again, because of the auditors' concentration on quantitative factors to determine significance, we recommend that the Board define and clearly articulate as to the quantitative and qualitative factors that should be considered in analyzing deficiencies. Without this guidance, we believe that the amount of effort and time spent on identifying and remediating issues of little significance will not be addressed.

3. Clarifying the Role of Interim Materiality in the Audit

We believe that the reference to interim financial statements should be removed from the definitions of significant deficiency and material weakness. Since management is required to assess the effectiveness of internal controls as of the end of the year, we recommend that the Board communicate that the deficiency evaluation should be based on the potential impact to the annual financial statements only.

4. Removing the Requirement to Evaluate Management's Process

We support removing the requirement for an evaluation of management's annual evaluation process but believe that the change will have a minimal impact on eliminating unnecessary audit work. We believe that the external auditors focus more on auditing internal controls directly to determine the operating effectiveness of management's controls rather than auditing management's testing.

5. Refocusing the Multi-location Testing Requirements on Risk Rather than Coverage

We believe that a significant increase in efficiency is only attainable for multi-location audits if the audit firms embrace the move away from adopted coverage ratios. By switching focus from minimum coverage to a risk based approach, management and the auditors should be able to focus on the areas with the greatest exposure from an internal control perspective.

6. Removing Barriers to Using the Work of Others

The proposed standard provides a framework for evaluating the competence and objectivity of the individuals performing the testing, which includes education and experience level. We suggest that the Board provide guidance to the auditors regarding the type of experience, regardless of educational background, that would be appropriate to meet these requirements. For instance, if an issuer uses management to document and test internal controls, could the auditors rely on this testing if it is conducted by a party with experience in the process which is being tested, even though they do not have an auditing background? We feel it is important that the work performed by management is leveraged if the auditors have determined in prior years that management's assessment of internal controls is designed and operating effectively.

7. Recalibrating the Walkthrough Requirements

Management supports the proposed change regarding utilizing others when performing the walkthroughs. However, we believe that using the work of others should be broader than providing direct assistance in the walkthrough process. At a minimum, we suggest that the Board clarify what activities are included in "providing direct assistance".

In summary, we would like to reaffirm that Alcoa Inc. supports the Sarbanes Oxley Act and believes that the proposed changes to *Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements*, will decrease the burden of implementing Section 404 while ensuring that a strong internal controls are maintained.

Thank you for considering our feedback.

Sincerely,

Kelly Pasterick
Manager, Sox Compliance