

From: Richard Steinberg <rms@steinberggovernance.com>
To: Phillips, Laura
Sent: Mon Feb 26 13:02:39 2007
Subject: Comments On Proposed Audit Standard on Internal Control

Laura,

It was good talking with you earlier today. As promised, I've take a few minutes to summarize the comments I provided in the phone call.

§ In the proposed standard (A 1), in paragraph 1, the wording speaks to an audit of management's assessment of the effectiveness of internal control over financial reporting. The wording in the introductory paragraph of the illustrative auditor's report also speaks to management's assessment. The opinion paragraph of the illustrative auditor's report, however, speaks to the effectiveness of the internal control system itself.

I suggest conforming the wording to promote consistency. This could be done either by referring in the opinion paragraph to the fairness of management's assertion, or instead referring in the introductory paragraph (as well as in paragraph 1 of the proposal) to the internal control system itself. I believe the latter approach is likely to provide greater clarity to readers.

§ The proposal in number of paragraphs uses the term "control objective." I believe use of this term is unnecessary, and reduces rather than enhances understanding of the requirements.

The COSO internal control report refers to objectives of financial reporting, beginning with the reliability of financial statements, supported by principles of fair presentation and the five standard financial statement assertions. These are the objectives of reliable financial reporting. Effective internal control requires that risks to achievement of these objectives be identified, and that the risks be appropriately managed with relevant internal controls in place and operating effectively.

Use of the term "control objective" confuses the matter by inserting an additional concept. Also, the term might suggest that controls have some, perhaps predetermined, inherent objectives of their own. The term is not needed, and the proposal would be better without its use.

§ In at least one place in the proposal (page 31), the role of the audit committee is noted to be part of both the control environment and monitoring components of internal control. Looking back at the COSO report, I believe the audit committee is addressed only as part of the control environment. On that basis, I suggest that reference to the audit committee be related only to the control environment component.

I hope this is useful to you and your staff in refining the document. By the way, I believe the proposal is an improvement over AS 2, and is well crafted.

If you'd like to discuss further, please let me know.

Stay well,

Rick Steinberg