Michael E. Keane
Vice President and Chief Financial Officer

February 26, 2007

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W., 9TH Floor
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 021, "An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements and Related Other Proposals"

FILED ELECTRONICALLY (comments@pcaobus.org)

Dear Board Members and Staff,

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the "Board") proposed Auditing Standard, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements and Related Other Proposals," Release No. 2006-007 (the "Proposed Standard" or "Proposed Standards," as appropriate), which was issued December 19, 2006 (PCAOB Rulemaking Docket Matter No. 21).

Computer Sciences Corporation (CSC) has actively supported the efforts of the President, Congress, NYSE and SEC to enhance investor confidence, corporate governance, financial reporting and the capital markets. While management's representations and auditors' reports on internal control over financial reporting may help improve investor confidence, it is encouraging to note the developing attention toward balancing the cost with resulting benefits.

The costs borne by companies in reporting on internal control over financial reporting significantly exceeded all estimates and remains a matter of great importance to the U.S. economy, capital markets, investors and overall business climate. Costs, under the current approach, have been recognized as disproportionate to the benefits. Some companies have, in fact, de-listed their securities, delayed offerings, or turned to markets outside the U.S., particularly foreign corporations, to avoid these costs.

We commend the Board on the improvements incorporated in the Proposed Standards. We also commend the Board's decision to move toward a more principles-based, rather than rules-based, approach. This will enable greater flexibility and scalability and more readily facilitate application to all issuers. We feel the following improvements are particularly important:

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- Adopting a top-down, risk-based approach focused on the most important controls with the audit scope predicated more on risk than coverage;
- Eliminating the auditors' opinion on management's assessment;
- Clarifying the definitions of significant and material weaknesses;
- Using the same materiality for controls as the financial statement audit;
- Considering knowledge obtained in prior audits in determining the nature, timing and extent of procedures;
- Encouraging reliance on company level controls rather than transaction controls;
- Streamlining walkthrough procedures to focus on significant processes;
- Expanding areas of auditor reliance on the work of others (i.e., control environment, period-end financial reporting process and walkthrough procedures);
- Allowing reliance on the work of management, in addition to internal audit, subject to competency and objectivity; and
- Eliminating the "principal evidence" provision of AS No. 2.

These improvements should result in a significant reduction in compliance costs, and we believe further efficiencies are possible and necessary to maintain the competitiveness of U.S. capital markets.

The vast majority of both issuer and auditor effort and costs arise from the documentation, testing and evaluation of voluminous transaction controls, despite the fact that these controls are least effective in addressing the issues which led to the types of financial improprieties witnessed at Enron, World Com, Tyco and others (i.e. fraud, improper financial reporting, conflicts of interest and management override of internal controls).

We recommend the Board further address the following in the Proposed Standards:

- Clarify and provide further guidance and examples to facilitate reliance on entity-level and company-level controls rather than process-level controls testing;
- Clarify auditor risk assessment processes and provide examples of risk criteria, low-risk areas and extent of testing for low-risk areas to facilitate risk-based scoping;
- Emphasize the importance of entity-level and company-level controls, controls over management override, the period-end financial reporting process and the control environment, in identifying material misstatements;
- Expand the discussion of the period-end reporting process to incorporate controls over GAAP and SEC compliance, account reconciliations, unusual and non-routine transactions, review of operating results, significant, complex or subjective estimates and related party transactions;
- Permit multi-year rotation of testing for low risk areas;

- Continue to refine the definition of significant deficiencies to focus on truly significant matters;
- Incorporate cost benefit considerations in evaluating and remediating deficiencies;
- Encourage auditors to rely on management testing where personnel performing testing are objective and competent;
- Permit auditors to rely on walkthrough procedures performed by management;
- Clarify the "base line" testing approach for IT general controls;
- Further align the Proposed Standards with SEC issuer guidance; and
- Allow a one year transition period, but permit early adoption to realize efficiencies as quickly as possible.

We have included additional recommendations in our detailed responses to the Board's Request for Comments set forth in Exhibit I.

We appreciate the opportunity to express our views and offer our suggestions. We remain committed to working with the Board, the SEC, other issuers, investors and others on refinements and improvements which will enhance the effectiveness, and significantly reduce the cost, of these reporting requirements. We would be pleased to discuss at your convenience our recommendations. If you have any questions or would like to further discuss our comments, please feel free to contact Dennis Dooley at (248) 372-3306 or me at (310) 615-4821.

Sincerely,

Michael E. Keane
Vice President and Chief Financial Officer

cc:

PCAOB
Mr. Mark W. Olson, Chairman of the PCAOB
Ms. Kayla J. Gillan, Board Member of the PCAOB
Mr. Daniel L. Goelzer, Board Member of the PCAOB
Mr. Bill Gradison. Board Member of the PCAOB
Mr. Charles D. Niemeier, Board Member of the PCAOB
Mr. Thomas Ray, Chief Auditor and Director of Professional Services
Ms. Laura Phillips, Deputy Chief Auditor

SEC
The Honorable Christopher Cox, Chairman, Securities and Exchange Commission
The Honorable Paul S. Atkins, Commissioner

The Honorable Roel C. Campos, Commissioner
The Honorable Kathleen L. Casey, Commissioner
The Honorable Annette L. Nazareth, Commissioner

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Exhibit I

An Audit of Internal Control Over Financial Reporting That Is Integrated With An Audit of Financial Statements and Related Other Proposals (Proposed Standards) Request for Comments

Directing the Auditor's Attention Toward the Most Important Controls

1. Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?

The Proposed Standard clearly describes the general manner in which a top-down, risk-based approach to auditing internal control should be applied. However, the guidance in the Proposed Standard may not be sufficiently specific to overcome auditor tendency to over-scope audit procedures by using lower materiality parameters for auditing internal controls than that used in financial statement audits to allow for tolerable error, and their reluctance to:

- Rely on risk assessments to reduce the scope of their procedures, particularly detailed testing of transaction controls,
- Test and rely on company-level controls in place of low-risk, detailed transaction controls, and
- Exercise judgment in executing their audits of internal control, generally due to risk aversion.

In fact, the initial response of audit firm's to the Proposed Standards seems to indicate they do not expect implementation of the Proposed Standard, in its current form, to result in any significant reduction in audit effort or fees. Rather, they have cautioned the Proposed Standard could actually increase audit fees if management employs a "non-audit" approach in their assessment. For example, where functional personnel, not responsible for the operation of controls, perform testing rather than direct testing by internal audit, auditors have indicated they may no longer be able to rely on the Company's testing, regardless of the competence and objectivity of such personnel.

We think the scope of management and auditor testing should be based on: (1) the materiality factor used in the financial statement audit without adjustment to allow for tolerable error (generally materiality would be equal to 5% of earnings before tax, rather than lower thresholds of 2-2.5% which auditors had implemented to "allow for tolerable error"), (2) a risk-based, rather than coverage-based assessment of account balances and related financial statement assertions to be subjected to testing, and (3) assessment of the effectiveness of entity-level and company-level controls. As a practical matter, the types of "tolerable errors," so defined, generally are self correcting and non-cumulative, giving further support to the recommended materiality factors within assessed risks and controls.

2. Does the proposed standard place appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud?

Yes, the Proposed Standard does place appropriate emphasis on the importance of identifying and testing controls designed to prevent fraud.

3. Will the top-down approach better focus the auditor's attention on the most important controls?

Without question the top-down approach will better focus attention on the most important controls. In addition, we recommend the Board specifically emphasize the critical importance of entity-level and company-level controls, programs and controls over management override, controls over the period-end financial reporting process and the pervasive impact and importance of the overall control environment, in preventing and detecting financial statement misstatements. These were the control areas which resulted in the most pronounced instances of fraudulent financial reporting and malfeasance. Auditor testing and evaluation of controls in these areas is far more effective in preventing material misstatements and fraud than extensive testing of detailed, low-risk process-level transaction controls.

In addition to the elements identified in the Proposed Standard, the discussion of the period-end financial reporting process should also address the following areas which are equally critical to preventing financial statement misstatements:

- The company's process for ongoing monitoring of technical compliance with financial accounting and reporting requirements in accordance with GAAP, as well as SEC requirements,
- Account reconciliations,
- Review of operating results,
- Accounting and reporting of unusual or non-recurring transactions,
- Significant and complex or subjective estimates, and
- Accounting and reporting for related party transactions.

4. Does the proposed standard adequately articulate the appropriate consideration of company-level controls and their effect on the auditor's work, including adequate description of when the testing of other controls can be reduced or eliminated?

We believe further guidance and examples may be necessary to overcome auditor reluctance to rely on testing of company-level controls in place of detailed transaction controls (refer to our response to Question 1).

Emphasizing the Importance of Risk Assessment

5. Does the proposed standard appropriately incorporate risk assessment, including the description of the relationship between risk and the necessary evidence?

We endorse the concepts proposed and believe further guidance regarding the risk assessment may be necessary to effectively implement risk-based scoping. Examples of areas which may be evaluated as low-risk, criteria used in evaluating risk, and the manner in which the nature and extent of testing may be reduced would facilitate more expeditious and effective implementation of a risk-based audit approach. This could either be addressed in the Proposed Standard, or the Board may wish to update and expand SAS No. 47, “Audit Risk and Materiality” to clarify this area.

6. Would the performance of a walk through be sufficient to test the design and operating effectiveness of some lower risk controls?

Yes, performance of walkthrough procedures may be sufficient to test design and operating effectiveness where underlying processes and controls have not changed significantly since the last audit or for low-risk and medium-risk processes.

Revising the Definitions of Significant Deficiency and Material Weakness

7. Is the proposed definition of significant deficiency sufficiently descriptive to be applied in practice? Does it appropriately describe the kinds of potential misstatements that should lead the auditor to conclude that a control deficiency is a significant deficiency?

We suggest the Board further refine the definition of significant deficiency to focus on truly significant matters. Although the Board modified the definition to focus on “significant” matters, rather than “more than inconsequential” matters, and misstatements which are “reasonably possible,” rather than “more than remote,” we understand the profession intends to continue to interpret these parameters using the same quantitative thresholds: 1% for “significant” and 5% probability for “reasonably possible.” This makes it difficult to distinguish more significant deficiencies from matters of far less importance. Moreover, the definition encompasses potential control deficiencies and misstatements which although possible are, in fact, neither likely nor truly significant.

As a result of the overly broad definition of significant deficiencies, the cost of implementing, maintaining, monitoring, evaluating and reporting on internal controls has fundamentally increased in two ways. First, Section 404 has brought

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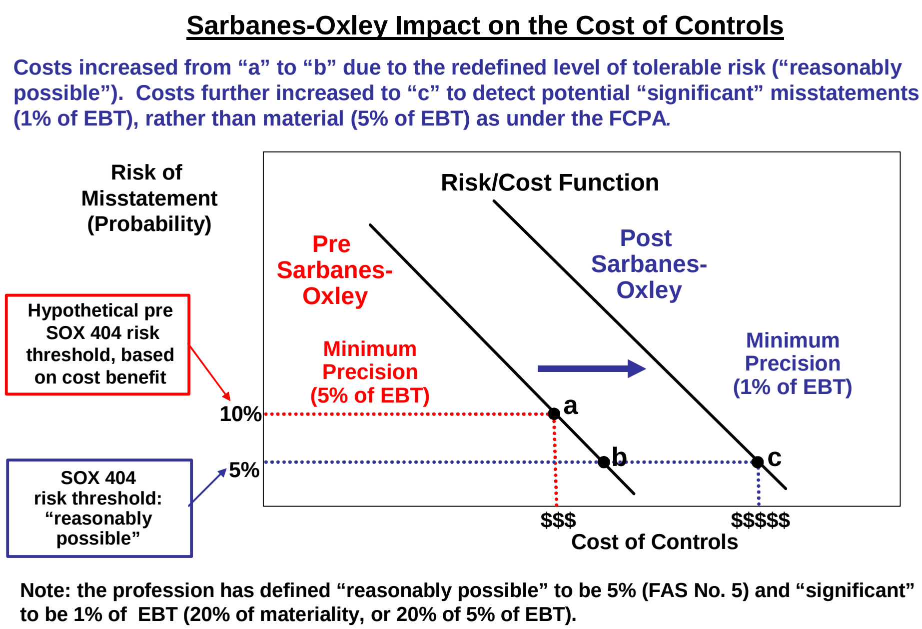
about a material adverse shift in the financial reporting cost-benefit relationship by essentially requiring companies to detect misstatements in excess of "significant" rather than material amounts. Second, the risk threshold encompasses any control deficiencies where potential misstatements are more likely than "reasonably possible".

The following chart, from our letter dated September 18, 2006, illustrates the impact of this definition on the cost of controls:



8. Are auditors appropriately identifying material weaknesses in the absence of actual material misstatement, whether identified by the auditor or management? How could the proposed standard on auditing internal control further encourage auditors to appropriately identify material weaknesses when an actual material misstatement has not occurred?

In many cases auditors have only identified material weaknesses at the time financial statements are restated. However, if the auditors focus on the critical importance of entity-level and company-level controls, programs and controls over management override, the period-end financial reporting process and the pervasive impact and importance of the overall control environment in preventing and detecting financial statement misstatements, material weaknesses will be identified on a more timely basis. The Board may wish to provide further examples and guidance in this area to assist in identifying such situations.

9. Will the proposed changes to the definitions reduce the amount of effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of material misstatement to the financial statements?

We do not believe the proposed changes to the definitions will reduce effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of financial statement misstatement because the definition of a significant deficiency remains overly broad (refer to our response to Question 7).

Revising the Strong Indicators of a Material Weakness

10. Should the standard allow the auditor to conclude that no deficiency exists when one of the strong indicators is present? Will this change improve practice by allowing the use of greater judgment? Will this change lead to inconsistency in the evaluation of deficiencies?

The Proposed Standard should allow the auditor to conclude that no deficiency exists when one of the "strong indicators of a material weakness" is present. For example, generally we believe a material weakness exists where a control deficiency results in a restatement. However, there may be situations where a control deficiency existing in prior years resulted in a restatement of previously issued financial statements but the deficiency has long since been remediated. This change should allow for the appropriate use of greater judgment and should not result in inconsistency in practice.

We recommend the Proposed Standard incorporate the language in the Proposing Release which indicates the auditor would not have to conclude a deficiency exists, and "strong indicators of a material weakness" would not necessarily result in a significant deficiency. We further recommend the Proposed Standard also include the language in the Proposing Release indicating failure to remediate a significant deficiency would only constitute a "strong indicator of a material weakness" if it were indicative of a deficiency in the control environment. There may be valid commercial reasons a significant deficiency is not remediated, particularly in view of the overly-broad scope of the definition of a significant deficiency (refer to our response to Question 7).

Clarifying the Role of Interim Materiality in the Audit

11. Are further clarifications of the scope of the audit of internal control needed to avoid unnecessary testing?

Yes, further clarification of materiality and risk-based scoping may be necessary to overcome auditor reluctance to reduce the scope of procedures relating to low-risk; process-level transaction controls (refer to our response to Question 1).

12. Should the reference to interim financial statements be removed from the definitions of significant deficiency and material weakness? If so, what would be the effect on the scope of the audit?

Yes, reference to interim statements should be removed from the definition of a significant deficiency and material weakness because it presumes a level of precision that is not feasible given the fundamentally subjective nature of these assessments. In addition, in view of the overly-broad scope of the definition of a significant deficiency to begin with, this results in identifying, evaluating, reporting and remediating fairly insignificant items (refer to our response to Question 7).

<u>Removing the Requirement to Evaluate Management's Process</u>

13. Will removing the requirement for an evaluation of management's process eliminate unnecessary work?

Yes, this will not only eliminate unnecessary audit work, it will enable management to exercise greater flexibility in the approach used in its assessment. Previously, management had defaulted to an "audit approach" due to the absence of any SEC guidance specifically focused on management's assessment. This due, in part, to the fact the auditor's opinion encompassed management's assessment.

14. Can the auditor perform an effective audit of internal control without performing the evaluation of the quality of management's process?

Yes, while we agree with the Board that the auditor should review management's assessment process, as a part of the overall review of the control environment, specifically evaluating and reporting on management's assessment is not necessary to express an opinion directly on the company's internal controls.

15. Will an opinion only on the effectiveness of internal control, and not on management's assessment more clearly communicate the scope and results of the auditor's work?

Yes, we believe this manner of reporting better communicates the scope and results of the auditor's work. The auditor should be required to form only two opinions, one on the financial statements and the other on the effectiveness of internal control over financial reporting. The auditors' opinion on management's assertion is redundant and does not provide further assurance for the investor. The opinion on the effectiveness of internal control over financial reporting provides the more conclusive assurance and is similar to the manner in which the auditor expresses his attestation on fair presentation of the issuer's financial statements. We would further recommend these two remaining opinions be integrated into one published opinion (a reporting method which is currently permitted but not required). This approach would serve to further underscore the risk-based, integrated nature of these audits.

<u>Permitting Consideration of Knowledge Obtained During Previous Audits</u>

16. Does the proposed standard appropriately incorporate the value of cumulative knowledge?

Generally, the Proposed Standard appropriately incorporates the value of cumulative knowledge. However, in the area of IT general controls we believe further efficiency can be gained by refining the approach to "base lining" IT application controls.

IT Application Controls

The evaluation of IT application controls is an area in which significant efficiencies could be achieved. We were hopeful in year two we would be able to apply a "base lining" approach in testing IT application controls. This is a long established, widely accepted practice used in audits of service providers under Statement on Auditing Standards No. 70 ("SAS 70 audits"). Under this approach, if IT application controls have been previously tested (either in conjunction with the initial system implementation or as a part of a subsequent audit), it would only be necessary to test changes in subsequent periods, assuming the auditor has satisfactorily tested IT general controls (including program change controls). The Proposed Standard requires the company to meet certain criteria to apply a "base lining" approach. These criteria require the issuer to demonstrate there have been no changes, not only in the IT application control itself, but also in any other application controls, data files, tables, interfaces or related applications which could conceivably affect the IT application control. In most cases, satisfying these criteria would be far more arduous than retesting the controls. Moreover, we believe the criteria are not only impractical but also unnecessary since program change controls are already subject to testing in conjunction with tests of IT general controls. Many issuers have initiated programs to further centralize, standardize and automate their processes and related controls in an effort to reduce the cost of compliance with 404. As these issuers further automate their systems of controls, modifying these criteria to permit more wide-spread use of a "base lining" approach would provide a powerful means of reducing the cost of compliance.

17. What are the circumstances in which it would be appropriate for the auditor to rely upon the walkthrough procedures as sufficient evidence of operating effectiveness?

Reliance on walkthrough procedures would be appropriate where underlying process and controls have not changed or in testing controls over low-risk and medium-risk areas.

Refocusing Multi-location Testing Requirements on Risk Rather Than Coverage

18. Will the proposed standard's approach for determining the scope of testing in a multi-location engagement result in more efficient multi-location audits?

We recommend the Board provide the following guidance regarding a multi-location engagement to further encourage a risk-based approach in determining the scope and nature, timing and extent of tests. Further, we recommend the

Proposed Standard incorporate rotation of testing, as well as reliance on higher level controls:

To achieve testing of all significant process level transaction controls over multiple years, process controls for low-risk and medium-risk business unit locations and account balances would be subject to evaluation on a rotation basis (e.g., once every three years).

- Walkthrough procedures would be performed for the account balances and related classes of transactions which are subject to review of process controls in any given year (as set forth in the rotation plan).
- In addition, issuers should be able to rely on supervisory activities. Most large issuers have multiple layers of review to determine controls are operating effectively and financial reporting is accurate and complete.

During the course of Roundtable discussions, the Comptroller General of the United States indicated a risk-based audit approach has been in use in Government Accountability Office audits of Federal government agencies for some time. The risk-based approach is used in tandem with a multi-year rotation plan to determine all areas are subject to audit testing over a multi-year time frame. The approach described above parallels the risk based rotation approach employed by the GAO.

We further recommend the Board endorse issuer monitoring controls in place of separate evaluation type testing of controls. Monitoring activities could include a wide assortment of activities, ranging from management oversight and testing of controls themselves to detailed review of the results of operations in combination with testing of controls over the period-end reporting process. Such activities might also include management's operating procedures and supervisory activities, especially in areas where measurements require greater judgment and have potentially greater impact on performance and reported results.

In addition, commercial software packages have been developed which enable issuers to monitor user and security access privileges to applications, operating system security configurations and certain other IT general controls, segregation of duties and ongoing monitoring of application and transaction controls, as well as automating system and application user provisioning. The capabilities of these monitoring tools is evolving rapidly and will likely enable far greater automation not only of the issuer assessment process but of the underlying system of controls as well. These types of monitoring tools potentially improve the effectiveness of the system of controls, provide a more robust foundation for issuer reporting on controls, significantly reduce compliance costs and deliver operational benefits.

<u>Removing Barriers to Using the Work of Others</u>

19. Is the proposed standard's single framework for using the work of others appropriate for both an integrated audit and an audit of only financial

statements? If different frameworks are necessary, how should the Board minimize the barriers to integration that might result?

Yes, the Proposed Standard's single framework for using the work of others is appropriate for both an integrated audit and an audit of only financial statements.

20. Does the proposed definition of relevant activities adequately capture the correct scope of activities, including activities that are part of the monitoring component of internal controls framework?

Yes, the definition of relevant activities adequately captures the proper scope of activities, including the monitoring component.

21. Will requiring the auditor to understand relevant activities performed by others identified control deficiencies, fraud, or financial statement misstatements improve audit quality?

Yes, requiring auditors to understand relevant activities should improve both the effectiveness and efficiency of the audit.

22. Is the principal evidence provision that was in AS No. 2 necessary to adequately address the auditor's responsibilities to obtain sufficient evidence?

No, we agree with the Board's decision to remove the "principal evidence" requirement. This should improve the efficiency of audits without any reduction in investor benefits.

23. Does the proposed standard provide an adequate framework for evaluating the competence and objectivity of the persons performing the testing? Will this framework be sufficient to protect against inappropriate use of the work of others? Will it be too restrictive?

Yes, the Proposed Standard provides an adequate framework for evaluating the competence and objectivity of personnel performing tests of the operating effectiveness of internal control which should protect against inappropriate use of the work of others while not unduly restricting auditor reliance.

24. Has the Board identified the right factors for assessing competence and objectivity? Are there other factors the auditor should consider?

Yes, the factors for assessing competence and objectivity are appropriate.

25. What will be the practical effect of including, as a factor of objectivity, a company's policies addressing compensation arrangements for individuals performing testing?

Inclusion of the compensation arrangements seems appropriate in evaluating objectivity; however, we suggest the Board further indicate compensation incentives alone would not necessarily preclude reliance but that the factors have to be considered in totality.

Recalibrating Walkthrough Requirements

26. Will requiring a walkthrough only for all significant processes reduce the number and detail of the walkthroughs performed without impairing audit quality?

Yes, limiting walkthrough procedures to significant processes rather than major classes of transactions should result in some reduction in work effort without impairing audit quality.

27. Is it appropriate for the auditor to use others as direct assistance in performing walkthroughs? Should the proposed standard allow the auditor to more broadly use the work of others in performing walkthroughs?

Yes, it is appropriate for the auditor to use direct assistance in performing walkthroughs and as indicated above we believe the auditor should, in fact, be allowed to rely on the work of others in this area without direct supervision, provided personnel performing the walkthroughs are competent and objective.

Scaling the Audit for Smaller Companies

28. Does the proposed standard on auditing internal control appropriately describe how auditors should scale the audit for the size and complexity of the company?

No comment regarding smaller companies.

29. Are there other attributes of smaller, less complex companies that the auditor should consider when planning or performing the audit?

No comment regarding smaller companies.

30. Are there other differences related to internal control at smaller, less complex companies that the Board should include in the discussion of scaling the audit?

No comment regarding smaller companies.

31. Does the discussion of complexity within the section on scalability inappropriately limit the application of the scalability provisions in the proposed standard?

No comment regarding smaller companies.

32. Are the market capitalization and revenue thresholds described in the proposed standard meaningful measures of the size of a company for purposes of planning and performing an audit of internal controls?

No comment regarding smaller companies.

Proposed Rule 3525 – Audit Committee Pre-approval of Services Related to Internal Control

33. Is there other information the auditor should provide the audit committee that would be useful in its pre-approval process for internal control-related services?

We do not believe any further information is necessary for pre-approval of internal control-related services.

Effective Date

34. How can the Board structure the effective date so as to best minimize disruption to on-going audits but make the greater flexibility in the proposed standards available as early as possible? What factors should the Board consider in making this decision?

We recommend the Proposed Standards be effective for years beginning one year after the date of adoption, but that early adoption be permitted. In this way, audit firms may voluntarily implement the Proposed Standards more quickly, where feasible, and take advantage of the resulting efficiencies.

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