



December 17, 2007

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

RE: "Preliminary Staff Views – October 17, 2007" *An Audit of Internal Control that is Integrated with an Audit of Financial Statements: Guidance for Auditors of Smaller Companies*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the TSCPA. The committee has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

We are delighted to have the opportunity to provide the input of the PSC into your deliberations regarding the proposed guidance for auditors of smaller companies when performing an audit of internal control that is integrated with an audit of the financial statements. Our committee is generally in agreement with the guidance presented in this document. We do have some comments regarding certain issues found in Chapters 1, 4, 6, and 7. Those comments are noted in the paragraphs below.

The second paragraph on page 10, in Chapter 1, includes a brief discussion of assessing control risk. This paragraph ends with a quote from Auditing Standard No. 5, paragraph B4, which indicates that the auditor is not required to assess control risk at less than the maximum for all relevant assertions, and, for a variety of reasons, the auditor may choose not to do so. We realize that this guidance is appropriate for a financial statement audit. However, we believe such guidance would not allow an auditor to be able to issue an unqualified opinion on internal control. If we are correct in our belief, shouldn't the proposed guidance make mention of this fact?

In Chapter 4 on page 23, a discussion of Segregation of Duties and Alternative Controls is provided. In this document, the components of segregation of duties include: authorizing transactions; recording transactions; reconciling information; and maintaining custody of assets. In other related literature (COSO Integrated Framework and AICPA Audit and Accounting Guide: Internal Control) the components of segregation of duties include authorizing transactions, recording transactions, and maintaining custody. These other documents do not include reconciling information as a component of the definition of segregation of duties. We wonder why the reconciling component is only added to the definition of segregation of duties in reference to small entities. Is there some special significance of "reconciling" as it relates to small entities of which we are unaware? If there is some significance to this issue, we believe it should be explained in the document.

We have some concern with the discussion of testing entity-level controls in the Management Oversight and Review section of Chapter 4. We feel that it is unlikely that the level of precision needed to adequately reduce the risk of material misstatement for a specific assertion can be attained from entity-level controls. Thus, we believe this section should include some comments that caution practitioners in this regard. We recognize that this concern is addressed in Example 2-1 on page 15 of the document. However, we feel a clear warning in the body of this chapter is warranted.

One additional issue in Chapter 4 concerns a mention of insurance/bonding in mitigating the risks from inadequate segregation of duties. The concept of insurance/bonding has long been a recommended control in mitigating losses that might result from inappropriate employee behavior caused by a lack of segregation of duties.

In Chapter 6, we believe the section entitled Supplementing Competencies with Assistance from Outside Professionals should include a cautionary statement about creating a control deficiency by over-reliance or improper-reliance on outside professionals. We recommend more cautionary language and a discussion of possible control deficiencies that could occur as a result of the degree and manner of reliance on outside professionals as a substitute for controls within the company.

The introductory paragraph in Chapter 7 seems to assume that "smaller, less complex" implies "simplicity." We believe smaller companies do have complex control issues, just smaller in scope than larger businesses. We would suggest including a statement to this effect in this discussion. Our committee also believes that the document would be enhanced by the inclusion of some practical steps to consider as "Audit Strategy Considerations." Some examples might include the following:

1. Use an internal control questionnaire as a focal point, and adapt it as necessary to make it more applicable.
2. Senior decision-makers are generally more involved in control areas and, as such, should be interviewed by the auditor to enhance the auditor's understanding of the control areas and help management better understand the effectiveness of such controls in mitigating relevant risks.
3. Emphasize the "walk through" approach to understanding a business process and the effectiveness of the controls put in place to mitigate the risks related to that process.

We have some concern about example 7-2 in Chapter 7. There is no discussion in this example of the cost considerations of poorly documented controls. Other parts of the document address costs by emphasizing the use of others' work to reduce the auditor's testing. The use of simple substantive procedures appears to be more efficient than testing controls around an assertion. Also, we believe that testing controls is a waste of time when there are scope limitations at the outset. We feel it would be worthwhile to mention in Chapter 7 that there is a cost trade-off to poorly documented controls, e.g., higher audit fees that result from chasing down evidence of controls in operations plus the risk that sufficient evidence may not be found.

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We appreciate the opportunity to provide our input to the standard setting process.

Sincerely,

A handwritten signature in black ink that reads "Sandra K. Johnigan". The signature is written in a cursive, flowing style.

Sandra K. Johnigan, CPA, CFE
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants