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Sent: Wednesday, October 29, 2003 9:22 AM
To: Comments
Subject: PCAOB Rulemaking Docket Matter No. 008

Comments on PCAOB Proposed Auditing Standard October 7, 2003

I think that the definitions and, particularly, the examples are well done. However, there are two areas I would like to see clarification.

I am teaching a class for the IIA on the impact of Sarbanes-Oxley on Information Technology. I also consult in the area and have found that deficiencies that are identified in information technology continue to be dismissed by the external audit firms as not material, regardless of their severity.

In one case, the computer room which operated all of their business systems was in the middle of an office under the same sprinkler system as the office and vulnerable to a smoke alarm in the bathrooms which would dump water on the equipment without notice and destroy the hardware and software and data for an extended period of time. This was compounded by lax network security which allowed the business computer to be exposed to the Internet and a lax security administration which allowed third-parties to access the business systems remotely as security officers. The comments of the external auditor were that there was nothing "material" in the IT area.

I would like to see some **example of a weakness in IT internal controls that should be considered a significant deficiency, material weakness, or aggregation of significant weaknesses** so that we do not go forward with the old external audit concepts of materiality.

Another area I would support clarification is the ability to rely upon the work of the internal auditors or other third parties in attesting to the client's internal controls. As a practical and economic matter the external auditors must rely upon these parties and verify that their work was rigorous. In some areas such as record retention (Section 103 of the law), the companies must be the custodians of most of the records being retained. Internal IT audit functions or third-party consultants can provide cost effective, knowledgeable manpower alternatives to fulfill the intent of Sarbanes-Oxley.

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