

The Public Company Accounting Oversight Board

Proposed Standard: Audit of Internal Control over Financial Reporting

Johnson & Johnson is pleased to comment on the proposed standard on Audit of Internal Control over Financial Reporting. We commend the Board for putting forth the concept and detailed requirements of an integrated audit of the financial statements and internal control over financial reporting. We believe this will contribute to further strengthening the investor confidence in the financial reporting process, internal control and the audit thereof.

The proposed standard discusses, amongst other items, the auditor's responsibilities and re-emphasizes principles and guidelines on auditor independence. It also discusses Management's documentation and testing requirements.

The proposed standard provides guidance on the Auditor's use of work of Management. More specifically, the proposed standard specifies that no use of Management's work can be made for the control environment or for controls that have a pervasive effect on the financial statements, such as certain Information Technology general controls on which the operating effectiveness of other controls depend. In other words, 100% external auditor testing is required for such controls. While we understand the auditor must perform enough work to provide evidence for the audit opinion, we believe 100% testing of certain controls is too strict and not cost effective in cases where Management has an adequate control structure in place and has adequately documented and tested controls. In many cases, Management's own testing will be supplemented with Internal Audit reviews that will include testing procedures independent from Management's own testing. The (external) auditor should be able to rely, to a certain extent, on such process. Internal Audit departments often perform very extensive work in the Information Technology area. Insofar as that process is considered to be effective by the (external) auditor, we believe it appropriate to allow the auditor to use, to a reasonable degree, the work performed by Management in such areas as Information Technology.

Please consider this observation in your deliberations on the final rules. It will be our pleasure to further clarify our point of view, if required.

Sincerely,

Ronald G. Fulop
Vice President
Corporate Internal Audit

Stephen J. Cosgrove
Corporate Controller