

November 21, 2003

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 008- An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements

Members and Staff of the Public Company Accounting Oversight Board:

I appreciate the opportunity to comment on the above-referenced docket matter.

I am both surprised and concerned about the language in the draft relating to reliance on the work of internal audit.

I am surprised because there has been an enormous amount of work put into developing a very thorough framework for the auditor's consideration of the internal audit function in an audit. The framework can be found in the AICPA professional standards/U.S. Auditing Standards (AU)/Section 322. This standard is based on Statement of Auditing Standard (SAS) 65. SAS 78 also further strengthens the framework by requiring a focus on corporate controls.

These current auditing standards already require a high degree of consideration before an external auditor can rely on the work of internal audit. The external auditor, among many other things, has to obtain an understanding of the internal audit function, assess their competence as well as their objectivity, consider the extent of the effect of the audit work, evaluate and test the quality and effectiveness of the internal auditors' work, assess the risk of a misstatement, and obtain evidence of management's assertions. The standard also specifically states that the external auditor has the ultimate responsibility to express an opinion and that responsibility can not be shared with the internal auditors.

I believe the auditing standards referenced (AU Section 322) should be incorporated into the language of the audit of internal control over financial reporting. Paragraph 104 in the current draft in particular should be eliminated. This paragraph would prevent the external auditor from relying on the work of internal audit in a number of areas. Specifically, certain general controls such as physical environment, disaster recovery, business continuity, change management, network security, back-up procedures, database security, operating system security, and operations are possible areas where external audit might want to rely on the work of internal audit. Unfortunately, if the broadest

interpretation of the limitation on information technology control testing is adopted, the external auditors will not be able to choose to rely on the work of internal audit. Consequently, the external auditors will perform much redundant work – in many cases with less competent staff – resulting in a lower quality of work at an unnecessarily high expense.

Many registrants have dedicated significant resources and achieved a high level of expertise in their internal audit departments. Particularly in the area of information technology, organizational expertise becomes more of a necessity as an organization's technology infrastructure gets larger and more complex. I believe most investors would prefer to place reliance on a seasoned group of information technology professionals with deep company-specific knowledge rather than a third party with less experience and more limited company-specific knowledge. Particularly if the work was performed in an objective manner and reperformed on a test-basis by the third party.

Another problem with paragraph 104 is that it is very ambiguous and appears to be contrary to the relevant auditing standards discussed above. Consequently, there appears to be a conflict regarding the reliance of internal audit for a financial statement audit versus the audit of internal control. Since these are for all intents and purposes performed in the same annual audit, I would recommend using the same audit standards.

I agree that under any number of scenarios a decision in which the auditor should not use the results of others, including external audit, might be the right decision. However, I believe current auditing standards already provide adequate guidance about how an external auditor should make that assessment.

Thank you for your consideration.

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General Auditor, American Airlines