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To: Comments

Evaluating the Effectiveness of the Audit Committee Oversight:

It does not make sense that 404 would ask the external auditors to evaluate the effectiveness of the group that is responsible for hiring, firing, and evaluating the effectiveness of the external auditors. This appears to be a clear case of a conflict of interest. Except in worse case scenarios, how can we expect external auditors to perform this function with any independence?

Defining Significant Deficiency and Material Weakness:

The standard does attempt to define the risk categorization, however, more detail is required to allow for a consistent application of the standard. The external audit guidance provided to our company has resulted in an extremely low threshold when pressed to put numbers around the quantitative factors defining the terms remote likelihood, inconsequential in amount, and material misstatement. The 5% (remote likelihood), 1% (inconsequential in amount), and 3% (material misstatement), respectively, apply a threshold that is not only difficult to assess across a test of controls, but if strictly applied would make doing business impossible.

Definition of a Qualified Opinion:

The standard again sets a low threshold requiring a qualified opinion on an item that has the potential to cause a material misstatement, but can be proven to have not resulted in a misstatement.

Example of a Significant Deficiency:

Our organization in the last year has spent significant time discussing, and coming to agreement, with our external auditors the application of specific accounting principals, only to be over ruled by their "national office". This change in application has resulted in material amounts within our financial statements being re-classified (prior to issuance). Would this be classified as a deficiency for applying the principal incorrectly?

A material misstatement that is discovered prior to issuance and discussed with the external auditor is again a low threshold. Especially when the external auditor is involved in the process for vetting the period-end findings and issues.

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