



State of Wisconsin Investment Board

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

Re: PCAOB Rulemaking Docket Matter No. 008 on Internal Control Audits

Dear Board Members and Staff:

This comment letter on the Proposed Auditing Standard for Audits of Internal Control is submitted at the invitation of the Board for comments from interested parties.

The State of Wisconsin Investment Board (SWIB) is investment manager for the Wisconsin Retirement System, which provides retirement benefits for over 500,000 public employees in our state and is the 10th largest public pension fund in the US. We currently manage over \$63 billion, with approximately 72 percent of those assets invested in the US. As a large investor, SWIB relies on the integrity and effectiveness of the audits of US public companies. We applaud efforts of the PCAOB to identify the shortcomings of current auditing standards and to strengthen the auditing process.

In addition to conveying general support for the proposed standards, I would like to draw your attention to the following comments, which are numbered to correspond to questions posed in PCAOB Release No. 2003-017:

2. We concur that the objectives and work involved in performing an attestation of management's assessment of internal control and an audit of the company's financial statements are closely interrelated. SWIB supports the proposed requirement that an audit firm be prohibited from conducting an audit of internal control without also auditing the financial statement. I believe this is also consistent with the requirements of s. 404 (b) of the Sarbanes-Oxley Act, which provides that internal control attestations "not be the subject of a separate engagement."
4. One size does not fit all when considering requirements for public companies in different circumstances. While SWIB generally believes that it is preferable to expend additional company resources on improved audits in order to reduce investor losses to negligence, fraud and litigation costs, we think it is also appropriate to consider the burdens that extensive regulations would have on smaller companies that do not have complex, multi-national operations. SWIB supports standards that impose different audit test requirements in accordance with a reasonable cost-benefit analysis associated with a company's size and complexity.
5. It seems obvious that more complicated or critical audit tasks should be performed by audit firm personnel that have a greater level of experience or training. SWIB supports a requirement that

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senior management interviews about possible fraud, and other high-level audit tasks, be performed by seasoned auditors.

6. SWIB supports a requirement that auditors be required to both evaluate management's process for determining that its control standards are effective and testing to gather evidence about effectiveness of those controls. This goes to the heart of the independent audit process. Failure to require both an independent evaluation and testing to confirm systems operation would leave investors susceptible to the same kinds of audit failures that have plagued the US markets over the last two years.
10. In order to obtain an independent judgment on significant internal control processes, SWIB believes it is appropriate to require auditors to perform their own walkthroughs of accounting and information systems and financial report preparation processes. We would not consider an audit to be "independent" if it were based on assurances of these important internal control processes made only by company management or internal auditors.
22. Recent corporate governance reforms in the Sarbanes-Oxley Act underscored importance of the role of the audit committee, giving it new powers and responsibilities. Existence of a competent and strong audit committee is one of the central pillars upon which the current system of corporate governance and financial reporting stands. SWIB supports creation of a requirement that auditors evaluate effectiveness of the audit committee's oversight of financial reporting and internal controls.
28. In order to implement new SEC rules on auditor independence, SWIB suggests that the PCAOB consider providing further guidance to auditors on what consulting engagements are likely to present an unacceptable conflict, where an auditor might end up auditing its own work. In addition, investors would take comfort from a requirement that, along with obtaining audit committee approval for consulting assignments, the auditor be required to certify to investors (pursuant to Sections 201 and 202 of the Sarbanes-Oxley Act) that it has made its own independent finding that the consulting duties will not impair the auditor's independence.

SWIB acknowledges that the PCAOB is also receiving comments from audit practitioners on details of the proposal. We profess no particular audit expertise and submit these comments from the point of view of an investor. However, we hope our observations will be of help to the PCAOB in its deliberations on producing a final rule that is fair and balanced.

Fee free to contact me if SWIB can be of further assistance.

Sincerely,



Keith Johnson
Chief Legal Counsel

cc: Investment Board Members
Executive Director