



SVIR Schweizerischer Verband für Interne Revision
ASAI Association suisse d'audit interne
ASRI Associazione svizzera di revisione interna
SIIA Swiss Institute of Internal Auditing

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

Zurich, November 19th, 2003

Re: PCAOB Rulemaking Docket Matter No. 008

Duplication of work performed by management and others and external auditor in compliance with Sarbanes-Oxley Act under the Proposed Auditing Standard

Dear Madam,
Dear Sir,

Thank you for the opportunity to comment on the proposed auditing standard on an audit of internal control over financial reporting performed in conjunction with an audit of financial statements.

As a result of the Sarbanes-Oxley Act, the SEC requires management to evaluate the effectiveness of internal control over financial reporting. In addition, management needs to make an assessment of the effectiveness of internal control over financial reporting. For most issuers this is a new task that results in a considerable additional effort because they used to delegate this task to their external auditor. The main reason was that companies thought the external auditor covered most of internal control over financial reporting during his audit of the financial statements and reported on it in his management letter.

Under the Sarbanes-Oxley Act, the external auditor is required to attest to and report on the assessment made by the management. Management cannot delegate its responsibility to assess its internal control over financial reporting to the external auditor. This wording by Congress and the SEC already implies that the external auditor evaluates and uses the work of management and *others*. For this purpose, *others* could mean internal auditor or any other third parties under the direction of the management.

The sections of the proposed auditing standard, which concern the use of the work of management and others, appear to be a deviation from the flexible risk based audit approach. The new fixed categories of controls where the external auditor should not use the results of testing performed by management and others or where the external auditor's use should be limited are not consistent with a risk based and cost efficient audit approach. In addition, we believe the principle, that the auditor must obtain *directly* the "principle evidence" about the effectiveness of internal control over financial reporting in order to form an auditor opinion, is too inflexible.

In the proposed auditing standard, the external auditor is required to assess and satisfy himself that the persons who have performed the testing of controls are competent and objective before he may use the results of their work. If the management, internal auditor or a third



parties who are deemed to be competent and objective by the external auditor, he should be allowed to use the work performed by these persons such as documented walkthroughs, work related to company-wide anti-fraud programs and controls, and work related to other controls that have a pervasive effect on the company. Of course, we agree that the external auditor retains the responsibility in deciding his sample size for testing of controls either by re-performing some tests done by the management and others or by performing tests on controls that are not included in the sample selected by management and others.

In conclusion, fixed categories of control do not offer an appropriate flexibility in determining the extent of the use of work performed by management and others. We believe that the extent of the use of others' work should be determined by a risk assessment of inherent risk and control risk. Of course, we agree that the external auditor retains the final responsibility for his opinion and the extent of the use of others' work. Due to the magnitude of the overlap, we urge the Board to examine this issue seriously.

If you have any questions or would like to discuss any of my comments further, you can contact me by phone 01141 1 249 27 77 or by e-mail at hpfyffer@kpmg.com.

Yours sincerely

Hans-Ulrich Pfyffer
President