

Subject: Comment on Rulemaking Docket No. 021, PCAOB Release 2006-007
 From: icfr@financeintegrity.com
 Date: Tue, Feb 06, 2007 8:32 am
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This comment letter concerns Rulemaking Docket Matter No. 021, PCAOB Release 2006-007.

The views expressed in this letter are my personal beliefs and opinions. These views have not been considered or endorsed by any company or organization.

Throughout my career, I have been an advocate of strong internal control, particularly with regard to the processing, accounting, and reconciliation of financial transactions.

As chairman of the audit committee of an eleven thousand member professional association, I convinced the Board of Directors that the annual financial statement audit did not provide assurance on internal control and therefore a separate audit of internal control would be beneficial. Within six months, the association received an attestation report that validated management's assertion that the association had effective internal control. All of this occurred at least five (5) years before Section 404 was even conceived.

I believe the Sarbanes-Oxley Act of 2002 is great legislation that has and will continue to discourage unethical behavior. In my view, the mandated CEO/CFO certifications, severe penalties, and the government's more aggressive pursuit of white collar criminals are particularly effective at discouraging fraudulent financial reporting.

The wording of Section 404 is reasonable and appropriately focuses attention on financial reporting. In turn, the Commission's initial definition of ICFR was correct for what was included and excluded from the definition. Extremely noteworthy, the Commission recognized that ICFR "*does not encompass the elements of the COSO Report definition that relate to effectiveness and efficiency of a company's operations and a company's compliance with laws and regulations ...*" I believe the fatal flaw in AS2 is the Board did not clearly synchronize its guidance with the Commission's definition of ICFR and did not clearly emphasize what was excluded from ICFR.

Concerning the proposed release, I strongly urge the Board to delete paragraph number five (5). If this paragraph survives, self-serving auditors will be given the power to control which framework is used by management. From a practical standpoint, it is likely most registrants and their accounting firms will use the same control framework; however, the Board should not mandate this be the case. It is important to note the Commission expressed an important view on control frameworks in Footnote # 50 of its proposed guidance to management:

- *"... we are not requiring that companies use the guidance in the auditing literature to conduct their evaluation approach. The Commission encourages the development of methodologies and tools that meet the objectives of the ICFR evaluation."*

If paragraph five is not deleted or altered in a significant way, the PCAOB will seriously undermine the Commission's stated preference that new control methodologies and tools be developed. Again, please consider deleting paragraph number five (5).

I am cautiously optimistic new control methodologies and tools will be developed in the near future. With any luck, perhaps these will be clearly and unequivocally focused on financial reporting.

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