



## North Carolina State Board of Certified Public Accountant Examiners

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February 19, 2007

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 021

To Whom It May Concern:

The North Carolina State Board of CPA Examiners (the Board) has reviewed the proposed auditing standards, *An Audit of Internal Control over Financial Reporting That Is Integrated with An Audit of Financial Statements and Related Other Proposals*, and *Considering the Work of Others in an Audit*, as well as the proposed new independence rule, *Audit Committee Pre-Approval of Services Related to Internal Control* and the related amendments to the PCAOB's interim standards. The Board believes that the proposed Statements, rule, and amendments contribute toward improving the audit of internal control over financial reporting.

The Board offers the following comments:

Page A1-11 (18.)

Company-level controls should include controls over the execution, recording, and reporting of related-party transactions since, unfortunately, experience has shown that business structure and operating style are occasionally deliberately designed to obscure these type transactions.

Page A1-16 (34.)

The Board recommends that to ensure that the auditor understands the flow of major classes of transactions completely through to financial reporting the first bullet point be revised to read, "Understand the flow of major classes of transactions, including how these transactions are initiated, authorized, processed, recorded and reported."

Page A1-21 (52.)

The Board recommends adding a bullet point that reads, "Whether there have been programming changes during the reporting period that might affect the performance of an automated control."

Page A1-24 (62.)

The Board recommends that the first note be revised to read:

Testing a single operation of an automated control might result in sufficient evidence that the control operated effectively, provided that relevant information technology general controls also are operating effectively and there were no programming changes affecting the automated control during the reporting period.

The Board wishes to commend the PCAOB for its work to make audits more efficient, effective, and useful. The PCAOB's regulations and standards are improving the areas of corporate governance, the quality and efficiency of important corporate processes and controls, and public company financial reporting.

Sincerely,

*Leonard W. Jones, CPA*<sub>lrh</sub>

Leonard W. Jones, CPA  
President

JMB/lrh