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February 26, 2007

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

Re: PCAOB Rulemaking Docket Matter No. 021 (PCAOB Release No. 2006-007)

Dear Sir or Madam,

Cardinal Health, Inc. ("Cardinal Health") is pleased to comment on the PCAOB's proposed auditing standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (the "Proposed PCAOB Standard"). Overall, Cardinal Health believes that the Proposed PCOAB Standards provide helpful guidance in a number of areas, particularly in the use of a top down, risk-based approach to designing and conducting an audit of management's assessment of internal control over financial reporting.

However, after reviewing the Proposed PCAOB Standard, we feel that a few areas could benefit from some expansion or further clarification:

Impact of a Centralized Control Environment on Scoping

With more and more companies taking advantage of shared services models and fully-integrated enterprise resource planning systems, it would be beneficial to provide specific guidance to the auditors on considerations around the scoping process and the extent of detailed control testing required for companies operating in a shared services environment and with fully-integrated enterprise resource planning systems.

Rotational Testing

The Proposed PCAOB Standard mentions that the knowledge gained from prior year's audits should be considered as a factor in the auditor's risk assessment when determining the scope and nature of testing to be performed. The Proposed PCAOB Standard also specifically states that it is not proposing to permit the practice of "rotational" testing, a practice in which the auditor relies on procedures that were performed in prior years for large sections of internal control, refreshing the testing every few years to ensure that nothing has changed and that controls continue to be effective.

It would be beneficial for the guidance to provide some clarification as to why this would not be considered an acceptable approach for lower-risk areas, particularly when one of the main themes of the Proposed PCAOB Standard is to provide the auditor with the flexibility to decide to reduce testing in some areas based on prior knowledge and its affect on the auditor's assessment of risk.

<u>Definition of "Company-Level Controls"</u>

The Proposed PCAOB Standard describes "company-level controls" in paragraph 18 to include a wide variety of control activities, ranging from consideration of the control environment to the controls over the period-end financial reporting process. Given the broad scope of the definition of entity-level controls, there may be some confusion as to exactly what types of procedures are encompassed by entity-level controls.

It may be beneficial to consider refining the definition of entity-level controls to include two categories: those controls that are more general and pervasive but may not detect specific financial reporting risk (e.g. control environment), and those controls that are detailed enough to detect specific financial reporting risk (e.g. controls over the period-end financial reporting process).

In addition, we believe it would be less confusing if the terminology in the Proposed PCAOB Standard ("Company-Level Controls") and the Proposed SEC Ruling ("Entity-Level Controls") are identical.

<u>Test of Controls in an Audit of Financial Statement</u>

Paragraph B7 of the Proposed PCAOB Standard instructs the auditor to evaluate the results of tests of controls when assessing control risk, and that "consideration of these results may require the auditor to alter the nature, timing, and extent of substantive procedures and to plan and perform further tests of controls, particularly in response to identified control deficiencies.

In addition to the above, it may be beneficial to provide the auditors with guidance in situations where the tests of internal controls prove the control environment to be more effective than previously thought, rather than only indicating those situations in which the auditor should consider expanding the testing of controls.

<u>Using the Work of Others</u>

In paragraph 7 of the proposed auditing standard, *"Considering and Using the Work of Others in an Audit,"* it states the auditor may use the work of others when assessing risk. Further guidance would be helpful to clarify whether the auditor may use the work of others for the purposes of planning. For example, the auditor may use qualitative/quantitative risk assessments and results from management's test of operating effectiveness to further refine the appropriate level of work required to express an opinion on internal control over financial reporting.

In addition, it would be beneficial to provide guidance on whether or not the auditor would be able to rely on walkthroughs performed by management, particularly for lower risk/routine controls.

We believe the concept of reliance on the work of others potentially represents the single biggest efficiency opportunity within the Proposed PCAOB Standards. We believe that clear guidance supplemented by examples of typical areas and approaches seen in practice will go the furthest to achieve the intended objective of avoiding excessive testing by auditors.

Scoping for General IT Controls

Both the Proposed PCAOB Standard and the Proposed SEC Ruling discuss the use of a top-down, risk-based approach to identifying and evaluating management's key controls; however, there is no specific mention of how this approach would apply to the identification and evaluation of General IT Controls ("ITGC").

Companies have generally taken an "all or nothing" approach in determining the scope of ITGC testing. If an application has been identified as being in-scope (because key financial controls either reside on the application or are executed around information produced by that application), then the complete scope of ITGC has historically been examined for that application with little consideration of the risk associated with the individual components of ITGC.

The Institute of Internal Auditors ("IIA") has released guidance entitled the *"Guide to the Assessment of IT General Controls Scope based on Risk"* (GAIT) that is meant to help facilitate the cost-effective scoping of ITGC assessments by helping organizations identify key ITGCs where a failure might indirectly result in a material error in a financial statement. GAIT is driven by four primary principles:

1. The identification of risks and related controls in ITGC processes (e.g., in change management, deployment, access security, and operations) should be a continuation of the top-down and risk-based approach used to identify significant accounts, risks to those accounts, and key controls in the business processes.

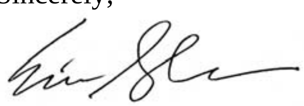
2. The ITGC process risks that need to be identified are those that affect critical IT functionality in financially significant applications and related data.

3. The ITGC process risks that need to be identified exist in processes and at various IT layers: application program code, databases, operating systems, and networks.

4. Risks in ITGC processes are mitigated by the achievement of IT control objectives, not individual controls.

It would be beneficial for the Proposed PCAOB Standard to provide some clarity on how a top-down, risk-based approach for scoping should be applied to ITGC, perhaps by incorporating some of the principles included in GAIT as described above.

Sincerely,



Eric Slusser
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