February 26, 2007

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

Re: PCAOB Rulemaking Docket Matter No. 021 - Proposed Auditing Standard – An Audit of Internal Control Over Financial Reporting That Is Integrated With An Audit of Financial Statements and Related Other Proposals

Dear Board Members:

We appreciate the opportunity to comment on the PCAOB's proposed standards. We support the PCAOB and SEC's efforts to continuously enhance the guidance available to companies and auditors in this complex and challenging area. It is critical that the PCAOB and SEC's proposed guidance align. Although we did not note any inconsistencies in topics between the PCAOB's auditing standards and the SEC's interpretative guidance, it does appear that the PCAOB's proposed auditing standards are more detailed.

Proposed Interpretive Guidance

1. **Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?**

2. **Does the proposed standard place appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud?**

3. **Will the top-down approach better focus the auditor's attention on the most important controls?**

4. **Does the proposed standard adequately articulate the appropriate consideration of company-level controls and their effect on the auditor's work, including adequate description of when the testing of other controls can be reduced or eliminated?**

   We believe that the proposed standard is very clear and concise. In developing the proposed standard, it is evident that the Board was cognizant of the complexity of AS No. 2 and has taken into consideration the comments received since its inception. The Board has made a significant effort in simplifying the requirements to make them more understandable, presenting them in a manner that reflects the logical flow of the audit process and emphasized the core objectives of an audit of internal control over financial reporting.

We agree that the top-down approach should eliminate some unnecessary procedures since in practice, the application of the prior standard seemed to follow a much more detailed and prescriptive approach. As discussed in the standard, there was a tendency to spend time testing many controls that were not subject to the highest risk of material misstatement. In addition, we believe that the auditor will be focused on testing controls designed to prevent or detect fraud since these areas would tend to carry the highest risk of material misstatement.

The discussion on company-level controls is particularly important in implementing a top-down approach. In practice, it seemed that the company-level controls were typically identified and tested by management and the auditors after the identification and testing of detailed process level controls. As the proposed standard indicates, if there is a strong reliance and a direct link between company-level controls and process level controls, the auditor will likely be able to reduce the testing of controls at the detailed process level. As a result, there could be significant time saved in this area.

5. **Does the proposed standard appropriately incorporate risk assessment, including in the description of the relationship between the level of risk and the necessary evidence?**

6. **Would the performance of a walkthrough be sufficient to test the design and operating effectiveness of some lower risk controls?**

As indicated in our responses above, we believe that the proposed standard does provide appropriate discussion and emphasis on the linkage between risk assessment and the relationship to amount of evidence that is required.

We believe that walkthroughs are an invaluable technique to obtain an understanding of the process flow and related controls in a particular area. As certain controls are deemed lower risk, we are supportive of walkthroughs as sufficient enough to test the design and operating effectiveness. In addition, the proposed standard indicates that auditors may rely on others to perform walkthroughs whereas AS No. 2 required that the auditors had to perform such procedures themselves in order to obtain "principal evidence". This is a very positive change and will lead to a reduction in time.

7. **Is the proposed definition of "significant" sufficiently descriptive to be applied in practice? Does it appropriately describe the kinds of potential misstatements that should lead the auditor to conclude that a control deficiency is a significant deficiency?**

8. **Are auditors appropriately identifying material weaknesses in the absence of an actual material misstatement, whether identified by management or the auditor? How could the proposed standard on auditing internal control further encourage auditors to appropriately identify material weaknesses when an actual material misstatement has not occurred?**

9. **Will the proposed changes to the definitions reduce the amount of effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of material misstatement to the financial statements?**

   We believe the proposed changes to the definitions of significant deficiencies and material weaknesses will ease the process of evaluation of deficiencies. In practice, this evaluation is extremely difficult, and we believe that the terminology "more than remote likelihood" forced management and auditors to spend a significant amount of time evaluating deficiencies that could never rise to the level of a significant deficiency nor material weakness. This is a very positive change and will allow the use of judgment in order to reach the appropriate conclusions about deficiencies identified.

10. **Should the standard allow an auditor to conclude that no deficiency exists when one of the strong indicators is present? Will this change improve practice by allowing the use of greater judgment? Will this change lead to inconsistency in the evaluation of deficiencies?**

    As indicated above, the process for evaluating and classifying deficiencies is difficult. It requires a review of specific facts and circumstances, as well as the use of judgment. There are situations where a deficiency, although exhibiting strong indicators of a material weakness (as previously defined in AS No. 2) could be deemed a deficiency. The prior standard did not allow for this possibility and forced a conclusion of either a significant deficiency or material weakness. We believe this change coupled with the other positive changes in the proposed standard will allow for a greater use of judgment.

11. **Are further clarifications to the scope of the audit of internal control needed to avoid unnecessary testing?**

12. **Should the reference to interim financial statements be removed from the definitions of significant deficiency and material weakness? If so, what would be the effect on the scope of the audit?**

    We do not believe further clarifications to the scope of the audit of internal control are necessary.

    We would not recommend removing the reference to interim financial statements in the definitions of significant deficiency and material weakness. The evaluation of deficiencies should be performed on both the interim and annual financial statements. In the financial statement audit, the auditor is required to analyze and measure uncorrected misstatements on both interim and annual financial statements. Since the audit of internal control is integrated with the audit of the financial statements, we feel that this evaluation should be performed on a consistent basis.

13. **Will removing the requirement for an evaluation of management's process eliminate unnecessary audit work?**

14. **Can the auditor perform an effective audit of internal control without performing an evaluation of the quality of management's process?**

15. **Will an opinion only on the effectiveness of internal control, and not on management's assessment, more clearly communicate the scope and results of the auditor's work?**

    We support the change to eliminate the auditor's requirement to evaluate management's process and issue an opinion. We agree that it will more clearly communicate the scope and results of the auditor's work.

16. **Does the proposed standard appropriately incorporate the value of cumulative knowledge?**

    We believe that the auditor's use of cumulative knowledge is an invaluable tool in planning and executing the audit. As the auditor is appropriately allowed to utilize cumulative knowledge in the financial statement audit, we found that it was inconsistent that AS No. 2 did not allow this practice in the audit of internal control. We fully support this change in the proposed standard.

17. **What are the circumstances in which it would be appropriate for the auditor to rely upon the walkthrough procedures as sufficient evidence of operating effectiveness?**

    Since the auditor will be able to use cumulative knowledge, walkthrough procedures may be sufficient evidence for areas that historically had few or no deficiencies and are considered to be low risk. As stated earlier, we believe that walkthroughs enable a visual understanding of a particular process and the related controls.

18. **Will the proposed standard's approach for determining the scope of testing in a multi-location engagement result in more efficient multi-location audits?**

    Yes, the proposed standard's approach to scoping multi-location engagements should enable a more efficient use of resources. This change is consistent with the overall objective of the proposed standard – a focus on the areas with the greatest risk of material misstatement. Although we support this change, we are concerned that the auditing profession will still require a certain "quantified level of coverage" in order to be satisfied that no areas were omitted in the scoping analysis. This will require a significant use of professional judgment and will likely cause difficulties in reaching consensus.

19. **Is the proposed standard's single framework for using the work of others appropriate for both an integrated audit and an audit of only financial**

statements? If different frameworks are necessary, how should the Board minimize the barriers to integration that might result?

20. **Does the proposed definition of relevant activities adequately capture the correct scope of activities, including activities that are part of the monitoring component of internal control frameworks?**

21. **Will requiring the auditor to understand whether relevant activities performed by others identified control deficiencies, fraud, or financial statement misstatements improve audit quality?**

22. **Is the principal evidence provision that was in AS No. 2 necessary to adequately address the auditor's responsibilities to obtain sufficient evidence?**

23. **Does the proposed standard provide an appropriate framework for evaluating the competence and objectivity of the persons performing the testing? Will this framework be sufficient to protect against inappropriate use of the work of others? Will it be too restrictive?**

24. **Has the Board identified the right factors for assessing competence and objectivity? Are there other factors the auditor should consider?**

25. **What will be the practical effect of including, as a factor of objectivity, a company's policies addressing compensation arrangements for individuals performing the testing?**

    We believe that the proposed standard's single framework for using the work of others is appropriate for both an integrated audit and an audit of only financial statements. This approach will enable one set of requirements to be followed.

    The proposed standard appears to include an appropriate list of factors necessary to assess competence and objectivity. We note that a high degree of professional judgment and detailed documentation supporting the conclusions will be necessary.

26. **Will requiring a walkthrough only for all significant processes reduce the number and detail of the walkthroughs performed without impairing audit quality?**

27. **Is it appropriate for the auditor to use others as direct assistance in performing walkthroughs? Should the proposed standard allow the auditor to more broadly use the work of others in performing walkthroughs?**

    See our responses to questions 5-6 and 16-17 above.

28. **Does the proposed standard on auditing internal control appropriately describe how auditors should scale the audit for the size and complexity of the company?**

29. **Are there other attributes of smaller, less-complex companies that the auditor should consider when planning or performing the audit?**

30. **Are there other differences related to internal control at smaller, less complex companies that the Board should include in the discussion of scaling the audit?**

31. **Does the discussion of complexity within the section on scalability inappropriately limit the application of the scalability provisions in the proposed standard?**

32. **Are the market capitalization and revenue thresholds described in the proposed standard meaningful measures of the size of a company for purposes of planning and performing an audit of internal control?**

    We certainly agree that there are different considerations for smaller, less complex companies and that AS No. 2 was written for the large company in mind. The proposed standard is clearly a principles-based standard. Since the scoping and execution of an audit of internal control requires a significant amount of judgment, the proposed standard and the measures and attributes described should assist the auditor of smaller, less complex companies and allow them to determine the appropriate level of procedures that need to be performed in order to support their opinion.

33. **Is there other information the auditor should provide the audit committee that would be useful in its pre-approval process for internal control-related services?**

    No, we do not believe additional information is needed.

34. **How can the Board structure the effective date so as to best minimize disruption to on-going audits, but make the greater flexibility in the proposed standards available as early as possible? What factors should the Board consider in making this decision?**

We believe that the Board should finalize the issuance of the standard so that it will be effective for 2007 audits. In order to effectively implement the new standard, it must be issued and effective no later than June 30, 2007 to enable the planning process to incorporate the new requirements. We are concerned that if this deadline is not met, the auditors will not be able to implement for the 2007 year-end.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that you may have. Please do not hesitate to contact me at (914) 253-3406.

Sincerely,

Peter Bridgman.

Peter A. Bridgman

cc: Marie T. Gallagher, Vice President & Assistant Controller