DELUXE

Deluxe Corporation
3680 Victoria St. N.
Shoreview, MN 55126-2966
P.O. Box 64235
St. Paul, MN 55164-0235

November 20, 2003

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

RE: PCAOB Rulemaking Docket Matter No. 008

Ladies and Gentlemen:

Deluxe Corporation is a Fortune 1000 company and is the largest provider of checks in the United States, with 2002 revenues of $1.3 billion. Founded in 1915, Deluxe has been instrumental in shaping the payments industry and serving financial services companies. Deluxe recently received recognition from "Business Ethics Magazine" as one of the 20 best corporate citizens in America and a top ten ranking from Institutional Shareholder Services for our corporate governance practices. Gaining and maintaining the trust of consumers and the investing public is of paramount importance to us.

With that in mind, and our philosophy of adopting new regulatory changes related to financial reporting as soon as reasonably practical, we are taking on the new requirements of the Sarbanes-Oxley Act with our best efforts. We are quite far along with the work required by Section 404 of the Sarbanes-Oxley Act and have already completed the following as we strive to ensure our full compliance with the new requirements:

- Identified 54 accounts or processes we consider significant to our financial reporting.
- Identified and documented over 1,000 controls, 265 of which we consider key controls, for these 54 processes.
- Documented our entity level controls.
- Performed procedures, including a walkthrough of each process, to test the operating effectiveness of the 265 key controls.
- Engaged our independent auditor to perform attestation procedures for three processes. These procedures are approximately 50% complete and will be completed by mid-December.

To date, to complete the above, we have incurred over 3,000 internal hours, $250,000 for external consulting fees and $200,000 for independent auditor fees (which is 85% of our base independent auditor fees for 2003).

From this perspective, we have addressed the 31 questions on which the Board is seeking comment. The responses in bold are considered, by us, to be of higher importance.

<u>Questions regarding an integrated audit of the financial statements and internal control over financial reporting:</u>

Q1: Is it appropriate to refer to the auditor's attestation of management's assessment of the effectiveness of internal control over financial reporting as the audit of internal control over financial reporting?

A: Yes, the title is appropriate for the type of attestation being provided.

Q2: Should the auditor be prohibited from performing an audit of internal control over financial reporting without also performing an audit of the financial statements?

A: Yes, these engagements are inter-related and benefit from each other. It is not practical to complete one without the other, and we believe this will enhance the quality of the independent auditor's work in general.

Q3: Rather than requiring the auditor to also complete an audit of the financial statements, would an appropriate alternative be to require the auditor to perform work with regard to the financial statements comparable to that required to complete the financial statement audit?

A: No, this is not a practical solution. It would be difficult to replicate a financial statement audit and to do so would be cost prohibitive. Therefore, as we stated in response to question two, we believe that the same independent auditor should perform both the audit of the financial statements as well as the audit of internal control over financial reporting.

<u>Question regarding the costs and benefits of internal control:</u>

Q4: Does the Board's proposed standard give appropriate consideration to how internal control is implemented in, and how the audit of internal control over financial reporting should be conducted at, small and medium-sized issuers?

A: No, the proposed standard does not make this clear. We believe the standard should further explain the importance of the "tone at the top" (i.e., the control environment) as it relates to the impact of the testing and documentation requirements of the proposed standard.

<u>Question regarding the audit of internal control over financial reporting:</u>

Q5: Should the Board, generally or in this proposed standard, specify the level of competence and training of the audit personnel that is necessary to perform specified auditing procedures effectively? For example, it would be inappropriate for a new, inexperienced auditor to have primary responsibility for conducting interviews of a company's senior management about possible fraud.

A: No, this is not practical. The firms providing these services must be responsible to develop and maintain sufficient competent staff to carry out these engagements. In addition, guidance related to the competency of independent audit personnel is already covered in existing professional standards.

Questions regarding evaluation of management's assessment:

Q6: Is the scope of the audit appropriate in that it requires the auditor to both evaluate management's assessment and obtain, directly, evidence about whether internal control over financial reporting is effective?

A: Yes, however, we have concerns over the limited level of reliance that the independent auditor can place on the work of management and internal auditors – specifically in the areas of IT general controls, the financial statement closing process and walkthroughs. Preliminary discussions with our independent auditor have led us to the conclusion that their current approach may cause them to complete an excessive amount of independent testing, thereby causing an excessive cost, both in terms of internal management time and their related fees. The ultimate responsibility to implement and maintain appropriate controls over financial reporting must reside with management. Therefore, we believe most of the independent auditor's assurance should come from assessing management's processes and compliance testwork related to internal controls.

We do accept that limited independent testing must be completed by the independent auditor. We respectfully submit, however, that this should be limited. We do not believe it appropriate or required that the principal evidence for the audit opinion be from the independent auditor's own work. The independent auditor should be allowed to exercise judgment and lean on their cumulative audit knowledge regarding the risks and control environment at each company to allow the independent testing to be reduced in companies with strong controls and with strong results during the initial year's assessment.

Q7: Is it appropriate that the Board has provided criteria that auditors should use to evaluate the adequacy of management's documentation?

A: Yes, it is appropriate that the Board provided documentation criteria. However, we believe this is an overall assessment that should be made by the independent auditor as the level and detail of documentation necessary may vary based on several factors, including the significance of the process in regard to the overall internal control structure. Therefore, we believe that the standard should allow the independent auditor to exercise professional judgment in evaluating the adequacy of the documentation.

Q8: Is it appropriate to state that inadequate documentation is an internal control deficiency, the severity of which the auditor should evaluate? Or should inadequate documentation automatically rise to the level of significant deficiency or material weakness in internal control?

A: No, it should not automatically rise to the level of a significant deficiency or material weakness, as a lack of documentation alone will not lead to any misstatement of financial information. It is the lack of actual controls, not the documentation of the controls that could lead to misstatements. Therefore, we believe lack of documentation in a particular area should be evaluated by the independent auditor to determine its severity.

Questions regarding obtaining an understanding of internal control over financial reporting:

Q9:Are the objectives to be achieved by performing walkthroughs sufficient to require the performance of walkthroughs?

A: Yes, walkthroughs will help the independent auditor better understand the processes they are assessing. However, we believe walkthroughs should only be required for routine process with high transaction volumes. Non-routine processes that involve a significant amount of judgment do not lend themselves easily to walkthroughs. Therefore, we believe the standard should allow the independent auditor to exercise judgment about the appropriate procedures to be performed.

Q10: Is it appropriate to require that the walkthrough be performed by the auditor himself or herself, rather than allowing the auditor to use walkthrough procedures performed by management, internal auditors, or others?

A: No, it is not appropriate to require that the walkthrough be performed by the independent auditor. We believe the standard should allow the independent auditor to exercise judgment in determining the level of reliance they place on the work of others. As such, the independent auditor should be able to utilize the walkthroughs prepared by management presuming they are properly documented and supported and were performed by competent and objective personnel.

If the requirement to have the independent auditor perform independent walkthroughs is maintained in the final standard, we would propose to our independent auditor that the walkthroughs be performed in conjunction with management testing at their direction. We would not want to duplicate walkthroughs for all significant control processes, as the cost of internal resources plus the incremental independent auditor fees would be far beyond the benefits attained. Requiring duplicative walkthroughs of all significant processes also could have the unintended consequences of encouraging companies to limit the number of processes they designate as "significant" in order to avoid excessive testing costs.

Question regarding testing operating effectiveness:

Q11: Is it appropriate to require the auditor to obtain evidence of the effectiveness of controls for all relevant assertions for all significant accounts and disclosures every year or may the auditor use some of the audit evidence obtained in previous years to support his or her current opinion on management's assessment?

A: Yes, it is reasonable to expect the independent auditor to obtain evidence of the effectiveness of controls for all relevant assertions each year. However, it would also seem reasonable that if there have been no changes to the control processes since the previous year, the amount of testing could be reduced while still being able to obtain evidence on the control effectiveness. Therefore, we believe that the independent auditor should be able to utilize their cumulative audit knowledge and judgment in determining the appropriate level of testing.

Questions regarding using the work of management and others:

Q12: To what extent should the auditor be permitted or required to use the work of management and others?

A: We strongly disagree with the premise that the principal evidence for the audit opinion must come from the independent auditor's own work and believe that the standard places very little value on the work of management and internal auditors. The independent auditor should be required to use and place reliance on the work of management and others to the extent practical. Based on the current requirements, the company is already completing its own audit of the internal control over financial reporting. This effort should be extensively relied upon by the independent auditor. If this is not the case, management should forego its efforts, and this engagement should be executed like a traditional financial statement audit during which the principal evidence comes from the independent auditor's own work.

Q13: Are the three categories of controls and the extent to which the auditor may rely on the work of others appropriately defined?

A: The three categories of internal control, while intending to be helpful, have the effect of allowing very little reliance on the work of others. We believe that the standard should allow the independent auditor's discretion as to the amount of independent testing necessary in order for them to attest on the effectiveness of internal controls over financial reporting. Again, the current requirements will cost companies an excessive amount of time and money as management and the independent auditor will both be required to perform much of the same testing.

Q14: Does the proposed standard give appropriate recognition to the work of internal auditors? If not, does the proposed standard place too much emphasis and preference on the work of internal auditors or not enough?

A: No, the standard does not give appropriate recognition to the work of internal auditors. More reliance should be able to be placed on the testing performed by internal auditors. The position of internal audit was created to be independent and objective from management, and current SEC and exchange rules also ensure this independence. Furthermore, the level of reliance the independent auditor can place on the work of internal auditors is already addressed in SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, for audits of financial statements and should be no different for audits of internal control over financial reporting. Therefore the work of internal auditors should be recognized as an

independent test of controls and allowed to be relied upon as such by the independent auditor.

Q15: Is the flexibility in determining the extent of reperformance of the work of others appropriate, or should the auditor be specifically required to reperform a certain level of work (for example, reperform tests of all significant accounts or reperform every test performed by others that the auditor intends to use)?

A: As we have indicated in our responses to previous questions, we do not believe a prescribed level of reperformance is practical. The amount of reperformance will vary based on many factors, including the competency and objectivity of the company personnel completing the work. Therefore, the amount of reperformance of the work of others should be left to the judgment of the independent auditor.

Q16: Is the requirement for the auditor to obtain the principle evidence, on an overall basis, through his or her own work the appropriate benchmark for the amount of work that is required to be performed by the auditor?

A: No, this is not an appropriate benchmark. Management is already going through the exercise of documenting and testing the company's controls. Therefore, the independent auditor should be able to heavily utilize this work in its attestation. If the independent auditor's work is the principal evidence, then management arguably should forego its efforts entirely and rely on that of its independent auditor.

Questions regarding evaluating the results:

Q17: Will the definitions in the proposed standard of significant deficiency and material weakness provide for increased consistency in the evaluation of deficiencies? How can the definitions be improved?

A: Yes, the definitions of significant deficiency and material weakness will provide for increased consistency in the evaluation of deficiencies. We believe the definitions are appropriate. However, the actual determination of what rises to a significant deficiency or material weakness should still be left up to the judgment of the independent auditor.

Q18: Do the examples in Appendix D of how to apply these definitions in various scenarios provide helpful guidance? Are there other specific examples that commenters could suggest that would provide further interpretive help?

A: Yes, the examples in Appendix D provide helpful guidance. We would suggest also providing an example of a significant deficiency and material weakness related to company level controls and information technology general controls. In addition, it would be helpful if the examples in Appendix D could be expanded to further explain situations where controls in place would keep a deficiency from elevating to the next level.

Q19: Is it necessary for the auditor to evaluate the severity of all identified internal control deficiencies?

A: Yes, in order for the independent auditor to reach a conclusion on the operating effectiveness of internal controls, they must evaluate the severity of the internal control deficiencies identified.

Q20: Is it appropriate to require the auditor to communicate all internal control deficiencies (not just material weaknesses and significant deficiencies) to management in writing?

A: No, the independent auditor should determine which deficiencies are communicated to management in writing. The independent auditor does not report all findings in a financial statement audit, especially findings of insignificant value. The same logic should be used for findings in audits of internal control over financial reporting.

Q21: Are the matters that the Board has classified as strong indicators that a material weakness in internal control exists appropriately classified as such?

A: Yes, the matters identified as strong indicators of a material weakness are appropriate. However, the determination of an actual material weakness should still be left up to the judgment of the independent auditor based on an evaluation of the item(s) in relation to the overall control environment.

Q22: Is it appropriate to require the auditors to evaluate the effectiveness of the audit committee's oversight of the company's external financial reporting and internal control over financial reporting?

A: No, this will create an inherent conflict of interest as the independent auditor is engaged by the audit committee. The purpose of maintaining the independent auditor relationship at the audit committee level is to allow the unencumbered assessment of management and the company's operations. To require the independent auditor to assess the audit committee would put the independent auditor in an awkward position. This position could cause the independent auditor to be unwilling to conclude that the audit committee is ineffective. In addition, the independent auditor may not have the level of expertise necessary to effectively evaluate an audit committee comprised of individuals with a much broader expertise than that held by the independent auditor.

Q23: Will auditors be able to effectively carry out their responsibility to evaluate the effectiveness of the audit committee's oversight?

A: No, as we stated in our response to question 22, we have misgivings about the independent auditor's ability to independently and objectively assess the audit committee's oversight. They may be hesitant to provide negative feedback as this could impact their relationship with the audit committee.

Q24: If the auditor concludes that ineffective audit committee oversight is a material weakness, rather than require the auditor to issue an adverse opinion with regard to the effectiveness of the internal control over financial reporting, should the standard require the auditor to withdraw from the audit engagement?

A: No, the independent auditor should not be required to withdraw from the engagement. If the company were required to hire a new independent auditor this would take resources away from improving the oversight.

Questions regarding forming an opinion and reporting:

Q25: Is it appropriate that the existence of a material weakness would require the auditor to express an adverse conclusion about the effectiveness of the company's internal control over financial reporting, consistent with the required reporting model for management?

A: Yes, a material weakness that has not been corrected prior to management's assessment date should result in an adverse opinion. The standard should be similar to a financial statement audit in that if there is a material misstatement of a company's financial statements, the independent auditor is not permitted to issue an unqualified opinion.

Q26: Are there circumstances where a qualified "except for" conclusion would be appropriate?

A: Yes, an "except for" conclusions may be appropriate under certain circumstances. These circumstances may include an acquisition completed within days of the end of a fiscal year.

Q27: Do you agree with the position that when the auditor issues a non-standard opinion, such as an adverse opinion, that the auditor's opinion should speak directly to the effectiveness of the internal control over financial reporting rather than to whether management's assessment is fairly stated?

A: The standard should require the opinion be consistently directed either at management's assessment of internal control over financial reporting or the internal control over financial reporting itself.

Questions regarding auditor independence:

Q28: Should the Board provide specific guidance on independence and internal control-related non-audit services in the context of this proposed standard?

A: Yes, the Board should provide specific guidance on independence and internal control-related non-audit services in the context of this proposed standard.

Q29: Are there any specific internal control-related non-audit services the auditor should be prohibited from providing to an audit client?

A: We agree with the current guidance in this area, specifically that which prohibits an independent auditor from performing any significant work that assists management in arriving at its assessment of the internal control over financial reporting.

Questions regarding auditor's responsibilities with regard to management's certifications:

Q30: Are the auditor's differing levels of responsibility as they relate to management's quarterly certifications versus the annual (fourth quarter) certification, appropriate?

A: Yes, the independent auditor's responsibility as it relates to management's quarterly certification should be consistent with the guidance provided in AU sec. 722, *Interim Financial Information.*

Q31: Is the scope of the auditor's responsibility for quarterly disclosures about the internal control over financial reporting appropriate?

A: Yes, the independent auditor's responsibility should correspond to the guidance provided in AU sec. 722, *Interim Financial Information.*

In summary, we believe that if the proposed standard is implemented in its current state, the costs will far outweigh the benefits of implementation. **Initial discussions with our independent auditor indicate that our independent auditor fees could nearly triple next year solely as a result of the Sarbanes-Oxley internal control attestation requirements.** To mitigate the excessive costs of implementation, we believe that there are two overriding factors in the proposed standard that should be modified.

1) The proposed standard is very prescriptive and does not allow the independent auditor to exercise sufficient judgment. As a result, the independent auditor must perform the same level of testing at companies with strong control structures as would be performed at those with weak control structures.
2) The proposed standard places very little value on the work of management and internal auditors. As a result, the independent auditor must reperform a significant amount of testing.

We respectfully request that the Board consider the additional financial burden being placed on companies when issuing the final standard.

Thank you very much for the opportunity to comment on the above-mentioned matter. We would be happy to respond to any questions you may have on our views or on our Sarbanes-Oxley Section 404 work. You can reach us at 651-483-7111.

Lawrence J. Mosner
Chairman and Chief Executive Officer

Douglas J. Treff
Senior Vice President and Chief Financial Officer

Katherine L. Miller
Vice President, Controller and Chief Accounting Officer