NASBA
National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700, Nashville, TN 37219-2417
Tel 615/880-4200 Fax 615/880-4290 Web www.nasba.org

May 10, 2005

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

Via e-mail to: **comments@pcaobus.org**

Re: PCAOB Release No. 2005-002 March 31, 2005:
PCAOB Rulemaking Docket Matter No. 018

Dear Board Members:

We appreciate the opportunity to offer comment to the Public Company Accounting Oversight Board ("Board") on the Proposed Auditing Standard - Reporting on the Elimination of a Material Weakness ("Proposal"). The National Association of State Boards of Accountancy's (NASBA's) primary goal is to increase the effectiveness of US state boards of accountancy. In furtherance of that goal, our Professional and Regulatory Response Committee ("Committee") offers the following comments on the proposed rules:

The Board has invited comments on the proposal to permit, on an entirely voluntary basis, a company to engage its independent auditor to conduct an engagement to report on the company's assertion that the company has eliminated a previously disclosed material weakness in internal control over financial reporting.

The Proposal permits a company to engage its independent auditor to report on the elimination of any or all previously disclosed weaknesses (i.e., disclosed in an auditor's report issued pursuant to Auditing Standard No.2) as of a date specified by management. If requested by the company, the auditor may conduct an engagement to report on the elimination of more than one material weakness.

Paragraph 52 of the Proposal addresses the language to be used in a report where the auditor has been engaged to report on only some of the previously disclosed material weaknesses. While the proposed language requires the auditor's report to state that it does not cover whether the other material weaknesses have been eliminated, it does not require the report to specify the nature of the other material weaknesses. Because of the voluntary nature of the Proposal, a company can pick and choose which weaknesses, if any, should be the subject of the auditor's report. The Committee believes that the auditor's report (or possibly some other document) should keep a scorecard of the status of the elimination of weaknesses by indicating specifically the weaknesses that have not been reported on.

The Proposal, as written, limits the auditor to reporting on material weaknesses previously disclosed in an auditor's report issued pursuant to Auditing Standard No.2. The Proposal invites comment as to whether the standard should "allow the auditor to report on the elimination of a material weakness in the circumstances in which the material weakness was identified and eliminated by management as of an interim date." The Committee believes that permitting such reporting would be in harmony with the reason for the proposed issuance of the standard, which was the call by some investors and companies for a mechanism for confirmation by the independent auditors of internal control improvements. (See Briefing Paper March 31, 2005 Public Meeting of the Board, page 2.)

The Committee notes that the Proposal refers to the "elimination" of a material weakness. The Committee believes that the word "eliminated" may be too final a term and would suggest the substitution in the proposed standard of the word "rectified" or "corrected."

Paragraph 26 of the Proposal (Page A1-12) speaks to the date that management specifies is the date that the material weakness was eliminated. The Committee recommends to the Board that the Board consider an auditing standard that would require a company to specify the date that management asserts is the date that on which a material weakness had been rectified.

Although the Committee supports the concept of this voluntary standard, the Committee would not be surprised if the voluntary standard becomes a *de facto* standard in practice, considering the current reporting environment. Factors beyond the control of the Board will likely dictate whether or not the standard remains a truly voluntary one.

We hope these comments will assist the Board in its work.

Very truly yours,

Michael D. Weatherwax, CPA
NASBA Chair

David A. Costello, CPA
President & CEO