THE ASSOCIATION OF THE BAR
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FINANCIAL REPORTING COMMITTEE

and

SECURITIES REGULATION COMMITTEE

May 12, 2005

Via email: comments@pcaobus.org

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

Attention: Office of the Secretary

Re: PCAOB Rulemaking Docket Matter No. 018

Ladies and Gentlemen:

This letter is submitted on behalf of the Committee on Financial Reporting and the Committee on Securities Regulation of The Association of the Bar of the City of New York (the "Committee") in response to Release No. 2005-002 dated March 31, 2005 (the "Release"), in which the Public Company Accounting Oversight Board (the "PCAOB") announced a proposed Auditing Standard – Reporting on the Elimination of a Material Weakness (the "proposed standard" or "proposal").

Our Committees are composed of lawyers with diverse perspectives on securities issues, including members of law firms, counsel to major corporations, investment banks, and institutional investors.

Introduction

The Committees support the PCAOB's objective of establishing requirements and providing direction that apply when an auditor is engaged to report on the elimination of a material weakness in internal control over financial reporting. In the initial application of the requirements of Section 404 of Sarbanes-Oxley, many companies have reported material weaknesses. Until a company is able to eliminate the material weakness and so inform investors and the financial community, there may be uncertainty about the reliability of the company's financial statements. A company is required in its Quarterly Report on Form 10-Q to inform investors of changes in its internal control that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. This will inform investors and the financial community of changes designed by management to eliminate a material weakness. The proposed standard will provide a valuable mechanism for auditors to confirm management's assertions that previously reported material weaknesses have been eliminated.

We suggest certain revisions to the proposal for consideration by the PCAOB. In addition, we believe the PCAOB should encourage successor auditors to accept engagements of the type envisioned by the proposed standard and clarify the procedures a successor auditor is expected to perform.

Permit an Auditor to Report on Post-Audit Material Weaknesses

We do not believe the proposed standard should be limited to material weaknesses previously described in an auditor's report issued pursuant to Auditing Standard No. 2. We believe the proposal should be revised to permit an auditor to report on the elimination of a material weakness that was identified and eliminated by a company as of an interim date. As indicated above, we believe that auditor reports on the elimination of a material weakness will provide important information to investors and the financial community about the reliability of a company's financial statements. The SEC's reporting requirements will require a company to include information on such a situation in a Quarterly Report on Form 10-Q. We see no need to require an auditor to wait until the next annual audit to assure those who rely upon the financial statements. We believe that the auditor should be able, on an interim basis, to evaluate management's assertion that the material weakness has been eliminated and perform the audit procedures necessary to determine that the controls specified in management's assertion were designed and operated effectively to eliminate the material weakness.

Engagement Acceptance by Successor Auditor

As indicated above, we believe that the proposed standard will provide an important mechanism to confirm management's assertions that previously reported material weaknesses have been eliminated, and therefore provide important information to investors, the financial community and others who rely upon a company's financial statements. In this initial period of the application of Sarbanes-Oxley Section 404 we believe this will be critical in restoring investor confidence in a company's financial statements. Therefore, we suggest the PCAOB review paragraphs 23 and 24 of the proposed standard in order to assure successor auditors that procedures necessary to obtain sufficient knowledge of the company's business and internal control over financial reporting will depend upon the nature of the material weakness, and that paragraph 24 is not intended to suggest that additional procedures are required or that a complete audit would be required except in extreme situations.

Conclusion

We commend the PCAOB for proposing a new standard of reporting on the elimination of a material weakness in internal control over financial reporting. It is the belief of the Committees that the public would be well served if the PCAOB gave additional consideration to specific elements of the proposed rule and considered our suggestions in connection with issuing staff guidance on Auditing Standard No. 2, as set forth in this letter.

Please note that this letter does not necessarily reflect the individual views of all members of the Committees.

Please note that Mark K. Schonfeld of the United States Securities and Exchange Commission, a member of the Association's Committee on Securities Regulation, did not participate in the preparation of this letter or the decision by the Committees to submit this letter to the PCAOB.

Members of the Committees would be pleased to answer any questions you might have regarding our comments, and to meet with the staff of the PCAOB if that would assist your efforts.

Respectfully Submitted,

/s/ N. Adele Hogan
N. Adele Hogan
Chair of Committee on Financial Reporting

/s/ Matthew J. Mallow
Matthew J. Mallow
Chair of Committee on Securities Regulation

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Not all of the Committee members participated in the preparation of this letter, nor did the participation of a member mean that he or she supported the views expressed in this letter. Moreover, the Committee members acted only as individuals and not as representatives of the organizations to which they belong or by which they are employed, and therefore the views expressed in the letter are not to be considered the views of any governmental, commercial or private organization other than the Association.

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