

December 17, 2007

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

RE: Preliminary Staff Views – October 17, 2007

Dear Sir:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB") Preliminary Staff Views – *An Audit of Internal Control That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies* (the "Guidance"). We support the PCAOB staff's efforts to develop guidance for audits of internal control of smaller public companies.

While we believe that Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* ("AS 5"), is scalable to companies of varying size and complexity, we believe that many will find the Guidance to be helpful.

In our view, the Guidance is consistent with the principles and concepts in AS 5, and we believe it is important for the PCAOB staff to ensure that the final Guidance, when issued, preserves this consistency.

We believe it is appropriate that the Guidance focuses on the complexity of a company, which is generally more relevant to the auditor than size. Accordingly, we believe that the Guidance, including the concepts and examples discussed therein, has broader applicability than just to audits of smaller public companies. In order to encourage broader consideration of the Guidance, we suggest that the title be amended to "*Guidance for Auditors of Less Complex and Smaller Public Companies*", which we believe better describes the scalability of AS 5. We also recommend that the PCAOB staff amend the introduction to more fully discuss the broader applicability of the Guidance.

In addition to the above, the Appendix to this letter provides broad commentary and suggestions with regard to each chapter of the Guidance.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions. Please contact Jorge Milo (973-236-4300) regarding our submission.

Sincerely,



Preliminary Staff Views – An Audit of Internal Control That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies

Chapter 1 - Scaling the Audit for Smaller, Less Complex Companies

In the discussion on the bottom of page 8, "Selection of Controls to Test", we suggest that the PCAOB include language that reiterates that the selection of controls for testing should follow a top-down approach. We also believe that additional language should be included on page 10 in the section that discusses how the auditor may perform primarily substantive tests of the assertion without relying on controls. The language should clarify that when conducting an integrated audit, and when controls have been effective for a sufficient period of time, substantive testing without control reliance for purposes of the financial statement audit may be inefficient, because evidence of the operating effectiveness of the control would continue to be necessary for the internal control audit.

In addition, on the bottom of page 10, when discussing how the auditor may decide to perform substantive tests of the assertions without relying on controls, we believe that the PCAOB staff should highlight the auditor's ability to vary his or her testing based upon the risk associated with the individual control. We suggest including the language from, or a reference to, the Note in paragraph 49 of AS 5 to emphasize that a walkthrough alone may, in some circumstances, provide sufficient evidence of operating effectiveness.

Lastly, page 6 of the Guidance discusses the attributes typically shared by smaller, less complex companies. We believe it would be more appropriate to state that these companies typically share "one or more", as opposed to "many" of the attributes listed.

Chapter 3 - Assessing the Risk of Management Override and Evaluating Mitigating Actions

Page 19 of the Guidance discusses the auditor's evaluation of mitigating controls over the risk of management override. The second paragraph of this section identifies controls that a less complex company "might implement to address the risk of management override". We suggest the Guidance not use the word "implement", which implies that these controls should be implemented by issuers as a result of the Guidance. These controls should already be in place based on other authoritative literature. We recommend that the lead-in to the bullet points read instead as follows: "The following are examples of controls that might address the risk of management override".

Chapter 4 - Evaluating Segregation of Duties and Alternative Controls

Example 4-1, footnote 5, cites the "COSO Small Companies Guidance, Volume II: Guidance, page 26". We believe that when defined on page 5 and again on page 16 that the COSO Guidance should be referred to as "COSO Smaller Company Guidance".

While adapted from the COSO Guidance, the scenario appears to be clearer in its original version. As adapted, Example 4-1 appears to contain a contradiction. Specifically, the second

sentence states, "...person responsible for the components has access both to the storeroom and the related accounting records", while the last sentence states, "IT access controls are implemented to prevent the person responsible for the components from entering transactions..." While we understand that the latter is intended to address the issue in the former sentence, we believe that as written, this fact pattern could be confusing to users. We suggest that the PCAOB staff clarify the language, or use the language exactly as written in the COSO guidance. In addition, the page reference from which Example 4-1 was adapted should be page 60.

While we believe the chapter effectively establishes the issue of segregation of duties at smaller, less complex companies, it would benefit from additional guidance on how to address this common problem. Additionally, the Guidance should include a discussion of how the limited resources of smaller, less complex companies, that often results in a lack of segregation, may also lead to a lack of objective personnel available to evaluate the effectiveness of internal control over financial reporting. As a result, the auditor may have a limited ability to use the work of others in the audit of internal control. It would be helpful if the Guidance highlighted that the auditor should consider this potential limited ability to use the work of others in the planning stages of the integrated audit.

Chapter 5 - Auditing Information Technology Controls in a Less Complex IT Environment

Page 26 of the Guidance discusses the Characteristics of Less Complex IT environments. While we agree with the characteristics identified, we believe that it would be more appropriate to state that smaller, less complex IT environments tend to have "one or more" of the characteristics cited.

In addition, while we find Example 5-1 to be helpful, we believe that the Guidance should note that the auditor should verify that the code in the packaged software cannot be altered by the users. A similar reference should be included in the related discussion in the last full paragraph on page 31.

Other Observations

We do not believe that the Appendix adds sufficient value as an example of a process when weighed with the risk that it could be misinterpreted as a best practice or limit creation of alternative, though effective, processes. We recommend that the PCAOB staff consider the relative merit of retaining the Appendix.

If the Appendix is retained, we believe that the PCAOB should include "Communication" as one of the major components of an integrated audit approach as listed on page 48. There should also be additional cautionary language in the introduction of the Appendix to make clear that it is not intended to amend or contradict AS 5.