From: Robert Schneider [rschnei@kimball.com]
Sent: Thursday, October 16, 2003 9:43 PM
To: Comments
Subject: Docket 008

Hard copy of the attached was mailed to the PCAOB today, October 16, 2003

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

October 16, 2003

RE: PCAOB Rulemaking Docket Matter No. 008 - Burden On U.S. Manufacturing Companies Greater Than Benefit

Dear Board Members:

I appreciate the Public Company Accounting Oversight Board's research and effort that clearly has been put into the proposed Auditing Standard, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements,* and the opportunity for public comment. This Standard is pursuant to Section 404(b), among others, of the Sarbanes-Oxley Act of 2002.

It is commonly agreed that the Sarbanes-Oxley Act was rooted in the very significant and disturbing accounting scandals that became public immediately prior to the Act. Each scandal of course had different facts and circumstances but in my view, there were 3 common elements:

1. Lack Of Integrity Of Management & The Board
2. Lack Of Independence Of The Auditor
3. Lack Of SEC Oversight And Enforcement Of Existing Securities And Criminal Laws

The first item cannot be legislated; the second is being appropriately addressed by recent legislation and the third is also being addressed by increased staffing of the SEC and greater legal action being taken against companies, and more importantly, the individuals within companies that perpetrate frauds.

With respect to the passing of Sarbanes-Oxley legislation in 2002, many helpful changes were debated by Congress, and ultimately, included within the legislation. On the topic of internal controls, Congress included very specific language to keep management focused on the integrity of financial reporting. Section 404(b) of the Act states:

> *"(b) Internal Control Evaluation and Reporting.– with respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by management of the issuer."*

It is my view that our Congress men and women intended for this language to mean what it literally states, and not be subject to the interpretation of the Public Company Accounting Oversight Board. Specifically, public accounting firms should attest to the assessment made by management, not perform a detailed audit of internal controls. This is a very important distinction as a detailed audit of internal controls each year is extremely costly to American business and its competitiveness, and in the end, will not address the lack of integrity of management and the board, which is such an important cause of accounting scandals. The best of controls can be easily circumvented by unscrupulous management as you indicate in PCAOB Release No. 2003-017, Page 5:

> *"Regardless of how well any system of internal control over financial reporting is designed and operating, it cannot provide absolute assurance of achieving financial reporting objectives because of inherent limitations. These inherent limitations exist because internal control over financial reporting is a process that involves human diligence and compliance and, consequently, can be intentionally circumvented."*

It is my view that Congress recognized this fact and accordingly did not intend for a detailed audit of internal controls. They effectively balanced the value of a detailed audit with the cost to American business and its competitiveness.

Further, you indicate on Page 8 of Release No. 2003-17:

> *"...investors expect the independent auditor to test whether the company's internal control over financial reporting is effective, and the proposed auditing standard would require the auditor to do so."*

I do not agree with this. What I think investors want to know is simply if the numbers in the financial statements are correct or not and if the disclosures are correct or not. If the numbers and the disclosures are correct and complete, I do not think investors give weighty consideration as to *"how"* the numbers got to their reported correct state. In the end, investors know that internal controls are nothing more than a tool in running an effective business, and that the most important aspect to running an effective business for the long-term is the integrity of management and the board. And without that integrity, internal controls are ineffective, whether audited or not, in giving absolute assurance the numbers and disclosures in financial statements are correct.

As noted above, I think Congress knew this, and therefore did not intend for the PCAOB to write regulations requiring a detailed audit of internal controls. They did, however, see the value in having the public accounting firm attest to management's assertion of its internal controls, which is much less costly to American business.

The final analysis of this proposed Auditing Standard requiring a detailed audit of internal controls is that public companies across America will incur greater costs, will become uncompetitive with companies not subject to this standard; and in the end, all this cost and work on internal controls would not have stopped the accounting scandals that initiated the Sarbanes-Oxley legislation in the first place, as we cannot legislate integrity. It is important to note, though, that many aspects of the Sarbanes-Oxley legislation have had and will continue to have positive effects with respect to the 2nd point (Lack Of Independence Of The Auditor) and the 3rd point (Lack Of SEC Oversight and Enforcement Of Existing Securities and Criminal Laws); and in the end, it is these changes of real substance that give investors real confidence in the accuracy of financial reporting.

Sincerely,

Robert F. Schneider
Kimball International Inc.
Executive Vice President,
Chief Financial Officer, Treasurer

CC: Financial Executives International, Colleen Sayther, President and CEO