



PPG Industries, Inc.
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William H. Hernandez
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November 18, 2003

Office of the Secretary, PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 008

Gentlemen:

This letter is furnished in response to The Public Company Accounting Oversight Board's proposed Auditing Standard, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements* ("Proposed Standard"). PPG Industries, Inc. (PPG) is pleased to submit its comments on the Proposed Standard. PPG is a Fortune 500 company and a leading global producer of coatings, glass and chemical products. The company employs approximately 33,000 employees worldwide and maintains accounting records at over 200 sites around the world.

We have responded to Question #6 representing our overall view of the Proposed Standard. The remaining questions are then addressed offering our views as appropriate.

Questions regarding evaluation of management's assessment:

- 6. *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?***

No. PPG Industries, Inc. believes that the scope presented in the Proposed Standard goes well beyond the letter of the law and the intent of Congress in passing the Sarbanes-Oxley Act into law. The Act clearly states that the public accounting firms should attest to the assessment of the internal control structure and procedures made by management, and we believe this requirement should not be expanded through interpretation into a requirement for a detailed audit of internal controls by the auditors.

Further, the Proposed Standard places unnecessary restrictions on the extent to which the auditor can rely on management's and internal audit's work to assess the effectiveness of internal control. These restrictions will lead to duplicate efforts on the part of the company and the external auditor with the result that the auditor will essentially re-perform the audit work already performed by management. This serves no value to the shareholder and will lead to unnecessary, increased costs.

Questions regarding evaluation of management's assessment #6 (continued):

The example provided in the Proposed Standard of the auditor's opinion (Example A-1) to be issued as a result of performing this work is not consistent with the position taken by the Proposed Standard that an audit of controls be performed. The draft unqualified opinion states, "In our opinion, management's assessment that W Company maintained effective internal control over financial reporting as of December 31, 20X3, is fairly stated, in all material respects, based on [Identify criteria, . . . COSO for example]." This language refers to the assessment performed by management, not an audit of internal control performed by the auditor as required by the Proposed Standard. If the auditor is going to be required to perform an audit of controls, then the opinion should state that the audit work performed by the auditor supports their own assessment of the effectiveness of internal control.

The Proposed Standard should be revised to require the auditor only to assess management's evaluation of its internal control structure and procedures. However, if the Proposed Standard is not modified and an audit of a company's internal controls is required, then our responses to the remaining questions are offered for your consideration.

Other Questions

Questions regarding an integrated audit of the financial statements and internal control over financial reporting:

- 1. 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?***

No. The law specifically states that the auditor will attest to, and report on, the assessment of the effectiveness of the internal control structure and procedures made by management. Accordingly, the work performed by the auditor should support the attestation statement on the assessment made by management, not be an audit of the internal control environment of the company.

- 2. Should the auditor be prohibited from performing an audit of internal control over financial reporting without also performing an audit of the financial statements?***

No. As previously indicated, the auditor should attest to management's assessment of internal control, not perform an audit of the internal control environment. The attestation work performed by the public accounting firm should be an extension of the financial statement audit.

If the final standard does require an audit of internal controls as presented in the proposed standard, then this should be treated as a separate engagement so that it can be managed separately. Public companies should then be able to enter into a competitive environment for selecting an auditor to complete the required work.

Question regarding the audit of internal control over financial reporting:

5. ***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.***

No. The Proposed Standard need not be so detailed as to address staffing qualifications for the auditor.

Questions regarding evaluation of management's assessment:

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

Yes. Specific guidance is welcomed. The criteria should be clear to help avoid conflicts of opinion.

8. ***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?***

Yes, we believe it is appropriate for the Proposed Standard to specify that inadequate documentation is an internal control deficiency, but the Proposed Standard should leave it to the auditor's judgment to assess the severity of the deficiency based on the facts and circumstances of each situation. A strong internal control environment could be in place and operating effectively even though the related documentation may not be complete. Inadequate documentation should be identified as a deficiency and be corrected, but it should not be presumed to be a significant deficiency or material weakness in internal control.

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

9. ***Are the objectives to be achieved by performing walkthroughs sufficient to require the performance of walkthroughs?***

If an audit of internal controls is required, then walkthroughs are an effective means of assessing the operational effectiveness of controls and should also be required.

10. ***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?***

If an audit is required, then the auditor should be able to rely, in part, on walkthroughs performed and documented by the company's management or internal audit staff or others. Also see the response to #11 below.

Question regarding testing operating effectiveness:

- 11. *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?***

No, it is not appropriate because the level of work that would be performed by the auditor would be unnecessarily high. The auditor should be able to rely on the results of detailed work he performed in the recent past, along with the results of audit work performed by management, the internal auditor or others. A rotational approach to testing controls over significant locations and processes should be acceptable and made a part of the Proposed Standard.

The concepts of fair presentation, materiality, reasonableness and sampling are important to establishing the scope of an audit of financial statements conducted in accordance with generally accepted auditing standards. These concepts should be equally relevant to an audit of internal controls, which would suggest that the notion expressed in the Proposed Standard of having the auditor obtain evidence of controls for all relevant assertions for all accounts every year should be toned down. (Also see comments in response to question #6.)

Questions regarding using the work of management and others:

- 12. *To what extent should the auditor be permitted or required to use the work of management and others?***

If an audit of internal control is required, then the auditor should be allowed to use the work of management, internal audit and others in a manner consistent with the guidance in generally accepted auditing standards covering an audit of financial statements. The auditor should be able to use the work of the Internal Audit function and rely on internal control documentation and testing performed at company locations.

- 13. *Are the three categories of controls and the extent to which the auditor may rely on the work of others appropriately defined?***

No. There is no reason for the Proposed Standard to identify any categories of control related to which the auditor should not be able to use the results of testing performed by management and others. Of particular concern is the comment in the Proposed Standard that no reliance can be placed on the work of internal audit testing certain information technology general controls. In a company such as ours, these IT general controls are in place at a large number of locations around the world. It is impractical, unnecessary and costly to require the auditor to do all this testing every year.

14. 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?

No. The Proposed Standard does not give enough recognition to the work performed by the company's internal audit department. PPG, as with most public companies, maintains a professional Internal Audit staff. A risk evaluation is performed each year by Internal Audit management to plan appropriate audit coverage; and extensive work is performed by the audit staff to assess the internal control environment maintained throughout our operations.

The Proposed Standard should make it clear that the auditor can rely on the work of the internal auditors to reduce the auditor's work in auditing internal control to avoid unnecessary duplication of effort. This reliance should be patterned after the reliance an auditor can place on the work of internal audit to reduce the auditor's work in conducting an audit of the financial statements in accordance with generally accepted auditing standards.

15. Is the flexibility in determining the extent of re-performance of the work of others appropriate, or should the auditor be specifically required to re-perform a certain level of work (for example, re-perform tests of all significant accounts or re-perform every test performed by others that the auditor intends to use)?

Yes, we believe providing the auditor flexibility in this regard is appropriate and consistent with the view that professional judgment should be exercised by the auditor throughout the work performed.

16. 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?

If an audit of controls is to be performed, then the Proposed Standard should contain guidance on the principal auditor consistent with that contained in generally accepted auditing standards for financial statement audits.

Questions regarding evaluating results:

17. 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?

No. The Proposed Standard will not result in increased consistency because the definitions contain terms that are subject to professional judgment and interpretation based on the attendant facts and circumstances. This seems inevitable and does not suggest that more detailed definitions be developed. We do suggest that the definitions be rewritten using generally accepted, existing terms of art such as "remote," "reasonably possible" and "material". The introduction of new terms like "more than inconsequential" will only add confusion and decrease consistency in the evaluation of deficiencies.

18. 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?

The examples provide limited guidance because it is impossible to convey the complexity that exists in these real life situations. In each case the auditor's judgment must be used to evaluate the results of the work performed in the context of this complexity.

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

Yes. Each identified internal control deficiency should be evaluated as to severity.

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

Yes. We agree that all internal control deficiencies should be communicated to management in writing.

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

In principle, we agree that the identified weaknesses could be material. However, each case must be evaluated in light of the attendant facts and circumstances. The auditor's judgment must be used to reach a sound conclusion in each situation.

The Proposed Standard should not state specific conditions that prescribe a conclusion.

22. 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?

No, the auditor should not be required to evaluate the effectiveness of the Audit Committee's oversight of the company's external financial reporting and internal control over financial reporting because it would put the auditor in the position of evaluating the group charged with the responsibility of hiring and overseeing the work of the auditor. Such a requirement would create an awkward situation for the auditor and one in which the auditor would at least appear to lack the independence necessary to make an objective evaluation of the Audit Committee's effectiveness in these areas.

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

No. The evaluation of the effectiveness of the audit committee's oversight should rest with the company's full Board of Directors. The Board of Directors should clearly establish objectives for the Audit Committee to achieve that are set forth in the Committee Charter and evaluate the Committee's performance against these objectives.

- 24. *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?***

No. There can be situations where strong, effective internal controls exist throughout a company's operations although a weak Audit Committee is in place. Additionally, the evaluation of the Audit Committee is subjective at best. Requirements should be broader in nature and not specific.

Questions regarding forming an opinion and reporting:

- 25. *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?***

Yes, assuming that the definition of a material weakness is made sufficiently clear in the Proposed Standard.

- 26. *Are there circumstances where a qualified "except for" conclusion would be appropriate?***

No, we believe the objective of the auditor's work is related to assessing the effectiveness of internal control over financial reporting in total. Allowing a qualified, "except for" conclusion would potentially create confusion in the mind of users of the financial statements concerning whether or not the controls over financial reporting are effective.

- 27. *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?***

No. As indicated in our response to #6, we do not believe that the auditor should be auditing internal controls. The opinion presented by the auditor, whether it is a clean opinion or a non-standard opinion, should evaluate management's assessment of controls over financial reporting.

Questions regarding auditor independence:

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

Yes. Guidance on how internal control related non-audit services impact auditor independence would be appropriate.

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

Yes. All significant internal control related services and internal audit services should be prohibited because of their adverse impact on auditor independence.

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

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

Yes. The procedures that the auditor must perform on a quarterly basis should be limited to inquiry of management about significant changes in the design or operation of internal control over financial reporting. Inquiry, in conjunction with the auditor's review of interim financial information performed during the quarter, should be sufficient to support the quarterly certification.

- 31. Is the scope of the auditor's responsibility for quarterly disclosures about the internal control over financial reporting appropriate?**

Yes.

NO RESPONSE

Question regarding an integrated audit of the financial statements and internal control over financial reporting.

- 3. 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?**

No comment.

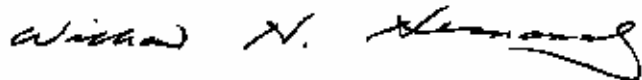
Question regarding the costs and benefits of internal control:

- 4. 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?**

No comment.

If you have any questions or require additional information, please contact David B. Navikas, Vice President and Controller at (412) 434-3812.

Sincerely yours,



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cc: D. B. Navikas
J. S. McAwley
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