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19 November 2003

Public Company Accounting Oversight Board
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Dear Sir or Madam,

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BP plc appreciates the opportunity to comment on PCAOB Release No. 2003-017, Proposed Auditing Standard – An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements. We support the intent of the proposed standard and believe, overall, that providing users of the financial statements with both management's assessment of the effectiveness of internal control and an independent auditor's evaluation of that assessment will increase financial information quality, raise investor confidence and, in the long term, improve the efficiency of capital markets. We would, however, like to offer several comments relative to the draft standard which BP believes could lessen the impact of the standard on companies without reducing its effectiveness.

First, with regard to Question No. 7, it is useful that the Board has provided criteria that auditors should use to evaluate the adequacy of management's documentation. However, the list is narrowly prescriptive rather than a guide to the types of documentation that should be considered. Therefore, it is limiting of other potential documentation alternatives that may provide equal or greater support and understanding of internal controls.

On Questions No. 9 and 10, we believe that, while the objectives to be achieved through walkthroughs by the auditor as described in the proposed standard are laudable, walkthroughs of the extent implied will significantly increase cost with limited, if any, incremental value. We believe the scope of walkthroughs implied by the proposed standard is excessive relating both to the potential number of processes impacted and the level of detail within a process at which the walkthrough is performed. We believe that it is reasonable for the auditor to perform walkthroughs on a limited and test basis; however, consistent with our view on Question 12 below, it is also appropriate for the auditor to review and rely on walkthroughs performed by management and/or internal audit where the auditor is able to confirm the effectiveness of a company's processes.

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Regarding Question 11, we believe it is both quite costly and unnecessary to require the auditor to obtain evidence of the effectiveness of controls each year independently. Annual cycling of detailed testing is a logical and practical alternative that we believe still provides the assurance intended by the proposed standard. If significant organizational, systems, or process changes have occurred during a period, the auditor should apply judgment to determine which would warrant expanded or off-cycle testing.

Regarding Question 12, as indicated above we believe the auditor should be permitted to use the work of management and others to a much greater degree than described in the proposed standard. The prescriptive list of areas where the auditor should not use or should limit the use of work performed by others is unnecessarily restrictive. We believe the auditor can develop an informed opinion on the effectiveness of internal controls based upon a combination of direct evaluation and review of internal control testing performed by others and that combination can and should vary depending upon the circumstances.

In regards to Question 17, we believe that the proposed standard may result in a level of precision and certainty that is both impracticable and unwarranted, resulting in a level of effort that is quite costly to businesses and, inevitably, to the capital markets themselves. Specifically, we are concerned with the proposed standard which defines a significant deficiency as "an internal control deficiency, or combination of deficiencies, that results in a more than remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential in amount". We regard this definition as infeasible to implement, and would suggest a definition that considers both probability and magnitude, while not being so all encompassing that a significant deficiency loses its meaning and importance. Furthermore, we believe the combination of the concepts of "aggregation", "more than remote likelihood", and "more than inconsequential in amount", taken together, will result in a considerable level of detailed documentation and testing by the auditor (even when effective management processes are in place) and hence result in significant cost for little incremental benefit to either the company or its investors. While perhaps a matter of interpretation, the combined concepts also appear to result in a different level of confidence than the "reasonable assurance" principle also articulated in the proposed standard.

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Lastly, we see inherent and irreconcilable difficulties in the concept introduced by the standard of the independent auditor evaluating the audit committee. This concept creates the potential for serious conflicts of interest when the independent auditor, who is retained by and whose compensation is determined by the audit committee, is required to evaluate its effectiveness. The audit committee is an important component of the overall control environment; however, we would suggest an alternative approach be considered whereby the auditor would perform a general assessment of the audit committee during the Control Environment review and only undertake a more detailed review if significant issues with the audit committee's processes are identified.

We appreciate your consideration of our comments.

Your sincerely,

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