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[hard copy to follow by mail]

21st November 2003

Dear Sir,

PCAOB Rulemaking Docket Matter No. 008

We are writing in response to your invitation for comment on the Proposed Auditing Standard: *An Audit of Internal Control over Financial Reporting performed in conjunction with an audit of Financial Statements* ('the Proposed Standard'). As our shares are listed on the New York Stock Exchange we are required to comply with the Sarbanes-Oxley Act of 2002 ('the Act') and, accordingly, have a vested interest in the Proposed Standard. We would like to make the following observations:

(1) Direct evaluation by an auditor of a company's internal control over financial reporting

Section 404 (a) of the Act and the SEC's related implementing rules require the management of a public company to assess the effectiveness of the company's internal control over financial reporting as of the end of the company's most recent fiscal year and to record its conclusions in the Annual Report. Section 404 (b) requires the company's auditor to attest to, and report on, management's assessment. Paragraph 4 of the Proposed Standard states that the auditor's objective is to 'express an opinion on management's assessment of the effectiveness of the company's internal control over financial reporting.'

The Proposed Standard goes beyond this requirement though and requires the auditor to both evaluate management's assessment and obtain, directly, evidence about whether internal control over financial reporting is effective. We question whether the direct audit of internal control over financial reporting on top of the required evaluation of management's assessment is necessary or appropriate for the following reasons:

(i) If it had been Congress's intention that internal control over financial reporting be audited directly why does Section 404 not explicitly require this?

(ii) The Act / Proposed Standard require a company's management to perform a thorough evaluation of its internal control over financial reporting, as set out in paragraphs 41 to 44. We believe the desire to obtain a clean audit report will provide the necessary pressure for most companies to ensure thorough evaluations are performed in line with the requirements. In some instances management's assessment of its internal controls will utilise more specialised / experienced staff which will result in better comfort / information compared to the direct testing of controls by the auditor. Management's assessment has much value but since paragraph 104 restricts the use by the auditor of management's work in a number of areas and paragraph 109 requires the auditor to 'perform enough of the testing himself or herself so that the auditor's own work provides the principal evidence for the auditor's opinion' much of management's work will need to be reperformed. This is clearly duplicative. We believe that auditors should be able to rely on controls testing performed by internal staff where they have satisfied themselves, using their professional judgement, of the competence and objectivity of the staff performing the work.

We recognise that Section 103 of the Act requires certain specific evaluations to be reported by the auditors, including whether internal controls facilitate the maintenance of accurate records, provide reasonable assurance that transactions are recorded and reported in accordance with GAAP and whether transactions have been appropriately authorised. These areas should be required to be included within the scope of the work performed by management and we believe that auditors should be able to rely on the work of management where, in their professional judgement, it is reasonable to do so.

The additional work required by the auditor to directly evaluate internal control over financial reporting, rather than focusing on the sufficiency of work performed by management and assessing whether this provides a reasonable basis on which to form a conclusion, will result in significant additional costs and we are not convinced this will yield a proportionate level of shareholder benefit.

(2) Assessment of the effectiveness of Audit Committee by the auditor

The Act makes the audit committee directly responsible for the appointment, compensation and oversight of the work of the auditor. Paragraph 57 of the Proposed Standard requires the auditor to specifically evaluate the effectiveness of the audit committee's oversight of the company's external financial reporting and internal control over financial reporting. We believe that it is not appropriate for the auditor to have a specific responsibility for evaluating the body that supervises its work. In our opinion the effectiveness of the audit committee should be assessed by the Board of Directors as a whole.

We agree that it is important for the effectiveness of the audit committee to be assessed but feel that some of the factors listed in paragraph 57 are too subjective. In addition, paragraph 57 lists the 'amount of time that the audit committee devotes to control issues' as a consideration in evaluating its effectiveness. We believe that it is the quality of time devoted to control issues rather than the amount of time that is relevant.

(3) Compensating controls

The Proposed Standard does not appear to take account of the complex interaction of controls that exists in practice. A low level control may fail but material differences may still be picked up by higher level controls performed later in a process. We believe that the initial failure of one control coupled with the successful operation of a compensating control should not lead to an adverse opinion.

(4) Acquisitions

The issue of material acquisitions not previously subject to regulation by the Act, which are completed towards the end of a company's financial year, needs some consideration by the Board. Such transactions may not allow sufficient time for management to properly evaluate the internal controls over financial reporting within the acquired entity and some guidance as to how this should be treated / disclosed is requested.

(5) Definitions / examples

It would be helpful to provide greater clarity around the definitions of a ‘significant deficiency’ and ‘material weakness’, as these terms are still hard to interpret.

We appreciate your consideration of our comments on the Proposed Standard.

Yours faithfully,

Paul F Blackburn
SVP, Corporate Accounting