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Office of the Secretary
Public Company Accounting Oversight Board
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via e-mail: comments@pcaob.org

Re.: PCAOB Rulemaking Docket Matter No. 008 – Comments to the Proposed Auditing Standard, "An Audit of Internal Controls Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements"

To the Members of the PCAOB:

The Credit Suisse Group appreciates the opportunity to respond to the request of the Public Company Accounting Oversight Board (PCAOB) for comments on the Proposed Auditing Standard, "An Audit of Internal Controls Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements" ("Proposed Standard").

As a foreign private issuer listed on the NYSE, the Credit Suisse Group (CSG) is pleased to see the attention being given by the SEC and PCAOB to the protection of investors in publicly held companies to restore confidence in the financial markets. CSG believes the spirit of the Sarbanes-Oxley Act, section 404 ("SOX 404") will significantly contribute to restoring confidence in the investment community.

CSG believes the objectives of SOX 404 and the restoration and maintenance of confidence in the financial markets should be achieved in an efficient and cost-effective manner, which is also in the best interests of investors. CSG has identified three general areas in the Proposed Standard that it finds to be of concern in relation to the role of the external auditor in reviewing an organization's internal controls over financial reporting, including the related management assessment of these controls, the proposed definitions of significant deficiency and material weakness, and testing type, size and timing.

A. Auditing Management's Assessment vs. Direct Evidence by the External Auditor

This comment addresses elements of the following questions from the PCAOB:

> *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?*
>
> *12. To what extent should the auditor be permitted or required to use the work of management and others?*
>
> *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?*
>
> *15. Is the flexibility in determining the extent of re-performance or the work of others appropriate, or should the auditor be specifically required to re-perform a certain level of work?*

CSG's understanding of the initial basis of review for SOX 404 was that the external auditor would review management's assessment of internal controls over financial reporting. The Proposed Standard extends such review to encompass significant additional work by the external auditor to acquire "direct evidence" of the effectiveness of internal controls over financial reporting. In the spirit of SOX 404, CSG believes the Proposed Standard should focus primarily on ensuring that management is effectively assessing the company's internal controls over financial reporting.

CSG is concerned that such additional work by the external auditor to obtain direct evidence of the design and operating effectiveness of internal controls over financial reporting in addition to reviewing management's assessment:

- will lead to potentially a triple review of certain internal controls, as external audit, internal audit and management may review the same areas;
- will result in documentation and related testing work performed by management being re-created or re-performed by external audit to obtain direct evidence or to perform walk-throughs; and
- does not take sufficient account of the role of an existing, independent and effective internal audit function to provide external audit with additional support for its conclusions.

CSG recognizes that the external auditor must consider the materiality of specific financial statement line items, associated risk and the likelihood and impact of potential misstatements in performing its SOX 404 review work. CSG believes, however, that through the use of sound, professional judgment by the external auditor, the documentation and testing work that the external auditor should be permitted to rely on – including that of management's assessment – should extend further than suggested in the Proposed Standard.

Finally, CSG is concerned that if the external auditor is not permitted greater flexibility in relying on the process by which management performs this assessment and the quality of the results obtained, the additional costs associated with external audit fees and the duplicated efforts of company personnel to support the external auditor's direct evidence collection are not an effective use of the company's financial and other resources in light of the benefit to investors.

B. Material and Significant Weaknesses – Degree of Weaknesses Requiring an Adverse Opinion

This comment addresses elements of the following questions from the PCAOB:

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

CSG believes the definitions of "significant deficiency" and "material weakness" should be conformed to existing definitions in U.S. generally accepted auditing standards AU Section 325, *Communication of Internal Control Related Matters Noted in an Audit*, and AT Section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*. CSG believes the Proposed Standard departs significantly from these existing accounting standards to make the threshold so low for determining significant deficiencies that there is almost no distinction between a deficiency in internal control over financial reporting and a significant deficiency. CSG is concerned that under the Proposed Standard most well-controlled companies would have significant deficiencies, and that would do nothing to improve the quality of financial reporting or investor understanding or confidence in financial reporting. Significant deficiencies in internal controls over financial reporting could become routine events, with little meaning for investors, causing companies and their management and internal and external auditors to use resources to report and correct deficiencies that are not commensurate with the effect they may have on the quality of financial reporting.

The Proposed Standard states that if one material weakness exists, or if several significant deficiencies exist that may aggregate to a material weakness, the auditor must issue an adverse opinion.

In the event a material weakness should exist, CSG believes that the external auditor should use its professional judgment to evaluate the type of weakness, mitigating controls, efforts to remedy the situation, as well as other relevant factors in assessing the impact on the audit opinion. The determination of the external auditor to issue a qualified or adverse opinion on the internal controls over financial reporting should be based on such evaluation and not solely on the quantitative existence of a material weakness, although cases will arise in which the quantitative effect of a material weakness results in a misstatement to the financial statements so material that the external auditor must issue an adverse audit opinion. The external auditor should have the flexibility to evaluate the efforts by an organization to correct, improve or mitigate areas of weakness, especially in the absence of material misstatements to the financial statements. Such efforts are a sign of effective internal controls to address new risks and weaknesses and resolve such issues promptly.

C. Testing Type, Size and Timing

This comment addresses elements of the following question from the PCAOB, in addition to addressing generally other elements of the overall section in the Proposed Standard on testing of 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?*

As performed during the course of normal audit work, auditors will regularly review the control risks, materiality of related financial statement line items and potential for misstatement, and historic experiences with various areas of a company's internal controls. CSG believes that the external auditor should be allowed to use its professional judgment based on, but not limited to, the above considerations, to determine which accounts and disclosures should be tested and whether or not these need to be tested on an annual basis. CSG recognizes that there will certainly be areas that the external auditor will, however, continue to test on an annual basis based on its judgment and risk assessment. CSG believes this same approach is relevant when reviewing management's assessment of the internal controls over financial reporting.

Related to the general topic of testing of operating effectiveness, CSG has the following comments:

The Proposed Standard includes examples of testing type, size and timing. These are discussed as being examples on which the external auditor could base the scope of its work. CSG believes that these should, however, be the basis for evaluating the quality of management's assessment and not the type, size and timing of testing necessarily expected of management in its assessment work.

CSG believes that testing type, size and timing should be a determination of management and be an integral part of assessing the adequacy of management's assessment process. Management will need to consider a number of factors in determining types and timing of tests and test size, including the nature of controls, frequency in which the controls are performed, potential impact and likelihood of risk addressed by the control.

The external auditor will subsequently have to judge whether management's assessment, including the testing type, size and timing, is effective and whether its basis for testing performance is appropriate.

We look forward to the completion of the final version of the Proposed Standard to enable an effective and efficient implementation of the requirements of SOX 404.

Should you have specific questions regarding our comments, we are pleased to discuss the practical concerns we have with members of the PCAOB.

Sincerely yours,

Philip Ryan
Chief Financial Officer
Credit Suisse Group

Rudolf Bless
Chief Accounting Officer
Credit Suisse Group