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

Re: PCAOB Rulemaking Docket Matter No. 008

Ladies and Gentlemen:

The financial management of AT&T Corp. ("AT&T") would like to thank the Board for the opportunity to comment on your proposed auditing standard, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* ("the proposed standard"). AT&T would like to commend the Public Company Accounting Oversight Board (the "Board") for their work in preparing this proposed standard. AT&T supports the requirement for management to take responsibility for creating and maintaining an effective control environment. We believe this is an important cornerstone for reliable financial reporting.

For the most part, we believe that the proposed standard represents a good approach to achieving the objectives of Section 404 of the Sarbanes-Oxley Act of 2002. However, AT&T does see a few areas where some cost/benefit improvements can be made. Specifically, we believe that the external auditors should have the ability to rely more heavily on the work of independent, internal audit departments that they have assessed to have the skills necessary to properly evaluate internal controls. This is especially true in the information technology controls area. We also believe that after the base year audit, where the external auditor has done all the required independent testing of management's internal control assertions, that some sort of rotational, independent work could be done with more reliance placed on management's work. However, if paragraph 101 of the proposed standard provides for this flexibility then the only comment we have relates to the ability of the external auditor to rely more heavily on the work of the internal auditors.

Using the Work of Management and Others

In general, AT&T agrees with the three categories that the Board has included in the proposed standard, however we believe that types of controls included in the section where the external auditor cannot place any reliance on competent, independent



internal audit testing could be overly restrictive. Specifically, we believe that the Board has placed little value on the documentation and testing performed by internal audit for internal controls that have a pervasive effect on the financial statements, in particular general information technology controls. The proposed standard requires that the external auditor complete its own series of tests for which similar, if not identical testing plans and results are available from internal audit. At many companies these control activities are mature and the external auditor can re-perform testing of general information technology controls. AT&T recommends that the external auditor be permitted to apply judgment in this area and be able to utilize some of internal audit's work related to general information technology controls if the auditor assesses the internal audit function as competent and objective and the controls as mature.

If the proposed standard is adopted in its current form, the testing of general information technology controls will result in duplicative activities between internal audit and the external audit. As a result, the costs associated with these activities would appear to mitigate the benefits gained in this specific area.

Testing Operating Effectiveness

We believe, the proposed standard requires the auditor to obtain evidence of the effectiveness of controls for all relevant assertions for all significant accounts and disclosures every year. While AT&T agrees with this requirement during the initial year of implementation, the proposed standard may not adequately recognize the cumulative knowledge the external auditor gains from their results of their own testing of management's internal controls and the review of management's and internal audit's testing of those internal controls. Additionally, in instances where there are little to no changes to the internal controls the auditor should be able to utilize their judgment in determining the appropriate level of testing year to year. However, if paragraph 101 of the proposed standard does provide the external auditor the flexibility to recognize the cumulative knowledge gained from the results of previous audit work, then we are comfortable with this aspect of the proposed standard and the following comments are not necessary.

We believe that the proposed standard maybe overly prescriptive, requiring external auditors to perform the same level of testing year over year regardless of the results of the previous year control environment testing and cumulative knowledge obtained. Specifically, as it relates to rotating tests of controls for significant accounts and disclosures, we believe the proposed standard does not allow the auditor to exercise judgment regarding the level of testing from year to year on processes that have little to no change.

AT&T recommends that the external auditor be permitted to exercise judgment as to the extent of testing of controls related to significant accounts and disclosures based on their cumulative knowledge and testing results after the initial year of implementation. In order to provide a better basis for the external auditor to rely on

testing by management, perhaps the Board should consider proposing broad guidelines related to the frequency of testing internal controls by management when the external auditor would apply a rotation testing approach. Additionally, it would be helpful if these broad guidelines would include the extent of management testing required that would enable the external auditor to rotate tests of internal controls regardless of whether those internal controls changed from year to year.

We appreciate the Board's consideration of our point of view and comments and we would welcome the opportunity to discuss any of these issues at your convenience. If you have any questions regarding this letter, please feel free to contact me at (908) 234-4250.

Sincerely,

A handwritten signature in black ink, appearing to be "N.S. Cyprus", written in a cursive style.

N.S. Cyprus