November 20, 2003

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 008

Ladies and Gentlemen:

We are pleased to submit this comment letter regarding the above-referenced Board Rulemaking Docket matter. Overall, General Mills supports the intent of the proposed auditing standard. However, we believe the Board should give further consideration to the following areas (1) issue significance and (2) extent of testing and use of the work of others.

Issue Significance:

"More than an inconsequential amount" is not clear:

When determining whether a control deficiency rises to the level of significant deficiency, the draft standard's use of *"more than an inconsequential amount"* introduces new and unclear terminology. We acknowledge that *"significant"* is felt by many to be imprecise, but *"more than inconsequential"* only introduces another imprecise term that in practice is likely to have a different meaning than *"significant"*. We believe that the dollar threshold to be considered *"more than inconsequential"* is much smaller than if *"significant"* were applied.

The examples in appendix D provide support for our belief. While careful consideration is given to whether the quantitative dollar amounts are material, both significant deficiency examples (D-1, scenario A and D-2, scenario A) easily pass the test of being *"more than inconsequential"*. Both examples state that the dollar magnitude cannot be material and that compensating controls to prevent material misstatement are operating effectively. However, both are considered significant deficiencies because there is more than a remote likelihood that a misstatement that is more than inconsequential but less than material could occur. No guidance is given as to what *"more than inconsequential"* means, but the implication is a lower threshold than *"significant"*.

We believe than an excessively low threshold is established by using "*more than inconsequential"*. The implication of a lower threshold is issues that are *"more than inconsequential"* but less than *"significant"* will be labeled significant deficiencies, forcing the attention of the audit committee on issues that may not merit their attention. Additionally, since a combination of significant deficiencies and/or uncorrected significant deficiencies can give rise to a material weakness, inappropriate designation of minor deficiencies as significant deficiencies can have serious consequences.

We propose that the Board remove *"inconsequential"* and simply use *"significant"*. Appendix B uses "*significant*" several times when providing auditors direction on which locations or business units are important to test. This usage is well laid out and should be used as the model for determining what constitutes a significant deficiency, from a magnitude perspective.

Inadequate documentation should not automatically be a significant deficiency:

Inadequate documentation should not automatically rise to the level of significant deficiency. Judgment should not be taken out of the process. It is only after a thorough analysis of all quantitative and qualitative factors that an issue should be labeled a significant deficiency.

Extent of Testing and Use of Work by Others:

Mandatory walkthroughs add unnecessary cost:

A walkthrough is a useful device for training someone on how a business process functions, but assumes a certain level of unfamiliarity with a process. Once an auditor is familiar with a process and has been able to determine that the controls in that process are operating effectively, they do not need to re-perform a walkthrough the next time they are asked to evaluate the same controls.

A walkthrough performed by management should be sufficient, as long as the testing work performed by the auditor does not call management's walkthrough into question. If the walkthrough is suspect, the auditor can use their professional skepticism as to whether re-performance of the walkthrough is necessary.

The extent of auditor test re-performance makes cost of compliance unnecessarily high:

We appreciate the Board's concern regarding the importance of an auditor coming to an independent, fact-based opinion. However, the Board goes too far in requiring the auditor to re-perform significant amounts of tests.

In a well-controlled company, which is fully complying with the letter and spirit of the law, one could reasonably expect to find substantial amounts of management and internal audit testing available for the external auditor to use. Such a testing program is costly. If management is forced to pay the auditor to re-test areas that in the auditor's professional judgment do not warrant re-testing, shareholders are being asked to pay twice while receiving no added benefit from the second review.

As long as the auditor has full and unrestricted access to audit every aspect of the internal control environment and management is able to provide them with credible evidence of effective internal controls wherever they happen to go, the auditor should be able to exercise professional judgment on how much re-performance to do to accomplish a thoroughly supported attestation.

<u>Requirement to obtain principal evidence of effectiveness for all significant accounts and disclosures each year:</u>

Requiring the auditor to obtain evidence for all relevant assertions for all significant accounts and disclosures every year is unnecessarily costly. While a census always provides more certainty than a sample, rarely does it justify the additional cost. In a Fortune 500 company, one could easily expect to find well over 1,000 key internal controls over financial reporting. Many of these controls will remain the same from year-to-year. It is not necessary for the auditor to obtain principal evidence every year to provide reasonable assurance. This is another area where we believe that the auditor should be entrusted to determine which areas are necessary to obtain evidence every year and which only need to be reviewed on a rotational basis (with the rotation to be determined by the auditor).

<u>Direct auditor re-performance of IT controls problematic:</u>

In the walkthrough example B-4, the auditor performs and documents controls through direct interaction with the computer system. The example implies that the auditor is personally entering transactions into the system. While we are entirely supportive of the auditor's testing objectives, we do not support issuing transaction processing authorization to auditors. In fact, giving such authorization to individuals who don't require it would be in direct conflict with the logical access controls of a well-controlled company's general computer controls policy. We recommend that the Board clarify that this type of testing be performed without requiring a company to give the auditors authorization to process transactions directly.

We appreciate your consideration of our comments on the proposed standard and would be happy to follow up with you regarding any questions you may have.

Sincerely,

Kenneth L. Thome
Senior Vice President, Financial Operations
General Mills, Inc.