EMERSON.

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Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 008

Ladies and Gentlemen:

Emerson supports the goals stated by Congress underlying the Sarbanes-Oxley Act of 2002 (the "Act") to increase corporate responsibility, to improve the accuracy and reliability of corporate disclosures and to protect investors by enhancing auditor independence. We submit this letter to highlight some of our concerns with the "Proposed Auditing Standard – An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements."

Overall

We caution the Board to not overreact to the illegal acts committed by a few companies. We believe fraud is not widespread and that all of the new rules will not stop such abuses from occurring. The proposed auditing standard will significantly increase costs, distract management and the auditor, and likely still not achieve the intended objective. As the Board noted, any system of internal control can be circumvented, particularly by senior management, which inherently limits its effectiveness. No matter what laws are put in place, individuals will be able to intentionally override controls and commit fraud. Fraud most often is discovered due to someone reporting the fraud, and the Act has strengthened this by providing broad access to a company's audit committee for reporting suspected violations.

Because the Act gave the Board significant authority in implementing rules relating to accounting firm attestation standards, we urge the Board to ensure that, to the extent the Board has been left with rule-making discretion under the Act, it carefully weighs the benefits to the investing public against the burdens to be placed on issuers and their auditors by the new attestation standards.

Auditor Evaluation of Management's Assessment

We are very concerned with the cost of implementing Section 404 of the Act, which we currently estimate will cost in excess of $5 million per year on an ongoing basis. We are also concerned that the proposed rules will cause duplicative effort of testing internal control effectiveness by management and the auditor. As indicated above, we do not believe internal controls were the problem in the most recent highly publicized failures. On the other hand, we do believe recent events have caused companies to review and strengthen internal controls and this is beneficial. However, duplicate testing cannot be justified from a cost/benefit perspective.

We propose that the rules should make clear that management's assessment could be based on all of the information that it has available from operating the business and all instances of problems identified by both internal and external auditors throughout the year. Based on this information alone, management should be able to conclude, without performing detail testing, that nothing has come to its attention that leads it to believe that internal controls over financial reporting are not effective. Then, the external auditors should perform detail tests and give an opinion on internal control effectiveness.

Alternatively, management's assessment could include detail testing of internal controls using its internal audit function, while the external auditor would review such testing and provide its opinion based solely on its review of management's assessment. We believe selecting one of these two testing models, but not both, would reduce our costs by $2 million per year. In addition, companies would avoid the intangible costs of operational disruptions from being audited by both internal and external auditors each year.

Reliance on Others
If the Board decides to adopt this standard as proposed, the final standard should allow more opportunity for the external auditor to leverage the work already performed by a company's internal audit function. The proposed standard appears to allow an external auditor to use the work performed by others, including internal audit, but the limitations imposed on such reliance negate this efficiency. For example, the requirements that an auditor perform walkthroughs for all of the company's significant processes during each audit, that an auditor not rely on others for controls in the control environment, and that an auditor only place limited reliance on others for controls over nonroutine transactions eliminate the supposed flexibility provided to the auditor.

The final standard should allow the auditor greater professional judgment to determine if the work performed by others is reliable and should not mandate specific areas that the auditor may not rely on the work of others. If management does not maintain sufficient documentation of management's assessment to allow the auditor to rely on its evaluation, the auditor could perform such additional procedures, as deemed necessary, to determine whether controls are effective. The auditor would also determine whether the lack of documentation results in a material weakness.

Effective Date
The effective date should be for audits of fiscal years beginning after the final standard is adopted, since the standard requires that the auditor's evaluation of controls be interrelated with the auditor's financial statement audit. Auditors who have already begun planning for some fiscal 2004 audits, particularly for those companies several months into their fiscal years, were unable to perform the procedures that would be required by the final standard when they planned the financial statement audit.

Summary
In summary, we support a balanced approach that weighs the costs and benefits, and only requires what is necessary without becoming excessive. There is a point where incremental requirements result in minimal improvement, but at a substantial cost. Either management should perform the assessment of internal control over financial reporting and the auditor should attest to the assessment performed by management, or management should perform a limited assessment and the auditor performs more thorough testing. The Board should work with the Securities and Exchange Commission to develop a compromise, so that both management and the auditor do not have to perform detailed testing of internal control over financial reporting.

Should the Board have any questions regarding our comments, please do not hesitate to contact the undersigned. We appreciate the opportunity to comment on these issues and trust that our comments will be seriously considered in future Board deliberations on these issues.

Sincerely,

Richard J. Schlueter

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