



Gregory A. Billhartz
Associate
Direct (314) 259-2510
gabilhartz@bryancave.com

November 24, 2003

**VIA E-MAIL AND
VIA FEDERAL EXPRESS**

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

Dear Sir or Madam:

On behalf of our client, a New York Stock Exchange and Fortune 1000 company, we enclose the attached comment letter in response to PCAOB Rulemaking Docket Matter No. 008, "*Proposed Auditing Standard – An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*," proposed by the Public Company Accounting Oversight Board on October 7, 2003.

If you require any additional information, or if we can provide you with any other information, please contact me at 314-259-2510 or R. Randall Wang at 314-259-2149.

Best regards,

A handwritten signature in black ink, appearing to read "Gregory A. Billhartz".

Gregory A. Billhartz

Enclosure

cc: R. Randall Wang

Bryan Cave LLP
One Metropolitan Square
211 North Broadway
Suite 3600
St. Louis, MO 63102-2750
Tel (314) 259-2000
Fax (314) 259-2020
www.bryancave.com

Hong Kong
Irvine
Jefferson City
Kansas City
Kuwait
Los Angeles
New York
Overland Park
Phoenix
Riyadh
Shanghai
St. Louis
United Arab Emirates
Abu Dhabi
Dubai
Washington, DC

*In Association With
Bryan Cave (Illinois)*
Chicago

*and Bryan Cave,
A Multinational
Partnership*
London

November 24, 2003

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006—2803

Dear Sir or Madam:

Reference: PCAOB Rulemaking Docket Matter No. 008

By way of reference, I am the Controller of a New York Stock Exchange and Fortune 1000 company in the primary business of manufacturing non-durable consumer products. We operate at 29 locations within sixteen states and with separate corporate headquarters. We sell to retailers throughout the United States. We generally compete with companies who are privately owned.

In response to PCAOB Rulemaking Docket Matter No. 8—PROPOSED AUDITING STANDARD—AN AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN CONJUNCTION WITH AN AUDIT OF FINANCIAL STATEMENTS (the “Proposed Rules”), we offer the following comments:

Question 4—Does the Board’s proposed standard give appropriate consideration to how internal control is implemented in, and how the audit of internal control over financial reporting should be conducted at, small and medium-size d issuers?

Response: Although within the Proposed Rules the Board acknowledges the facts that “internal control is not ‘one- size-fits-all’”, and that “the Board expects that the auditor will exercise reasonable professional judgement in determining the extent of the audit of internal control and perform only those tests that are necessary to ascertain the effectiveness of the company’s internal control,” the Proposed Rules appear to ignore these statements. The Proposed Rules mandate the scope and level of review regardless of the characteristics of an issuer. Specifically, Question 5 asks whether the Board should specify the level of competence and training necessary to perform specified auditing procedures effectively. This question assumes a standard can be created that applies to audit procedures of all types of issuers. We submit that since auditing procedures must be tailored to the characteristics of each issuer, no standard could be developed that would have satisfactory universal application. Compliance and training must be the responsibility of, and be subject to [the discretion of], the auditing firm and

should not be dictated by rule. In addition, Question 11, asks “ 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?” You appear to answer your own question in a previous paragraph when you state “However, each year’s audit must stand on its own. Therefore the auditor must obtain evidence of the effectiveness of controls for all relevant assertions for all significant accounts and disclosures every year.” Again, this appears to eliminate any judgment the auditing firm may have on where to spend its resources to achieve the overall goal of reporting on internal controls. In our view, the auditor should be able to determine the nature and extent of testing based upon its assessment of risks and costs/benefits. Further, it is our opinion that developing a “cookie cutter” approach to auditing internal accounting controls, where procedures, timing and materiality are specified by rulemaking bodies, will result in a false sense of security and will carry a much higher cost. In the event a rule dictates a de novo review of an issuer’s controls, issuers will pay for audit work that is not necessary with respect to previously accepted controls.

Question 12—To what extent should the auditor be permitted or required to use the work of management and others?

Question 13—Are the three categories of controls and the extent to which the auditor may rely on the work of others appropriately defined?

Question 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?

Question 15—Is the flexibility in determining the extent of reperformance of the work of others appropriate, or should the auditor be specifically required to reperform a certain level of work (for example, reperform tests of all significant accounts or reperform every test performed by others that the auditor intends to use)?

Question 16—Is the requirement for the auditor to obtain the principle evidence, on an overall basis, through his or her own work the appropriate benchmark for the amount of work that is required to be performed by the auditor?

Response—In our opinion, the answer should depend upon the judgment and work of the auditor and should not be specified by rulemaking bodies. The profession already has guidance as to when it is appropriate, and not appropriate, to rely upon the work of internal auditors. Specifically, in our own case, we have engaged an independent Big Four auditing firm to perform internal audit work. This firm operates under the direction of the Audit Committee and the Controller. If our auditors cannot use the work performed by our internal audit firm in any significant way, we would have to reconsider whether an internal audit function so designed had any benefit compared to the costs. In our view, eliminating or reducing the internal audit function would clearly be a step backward.

Question 22—Is it appropriate to require the auditors to evaluate the effectiveness of the audit committee’s oversight of the company’s external financial reporting and internal control over financial reporting?

Response - It is our opinion that the Proposed Rules will require the auditor to evaluate aspects of the audit committee for which there is no objective and measurable criteria (process used and time spent on internal control and financial reporting issues) and will require the auditor to evaluate aspects of the audit committee which the board of directors, with the assistance of the company’s legal counsel, has already performed (independence of the audit committee members, financial experts, etc). In addition, it is our opinion that the requirement appears to expand the definition of internal control over financial reporting and the criteria established in “*Internal Control – Integrated Framework*” issued by The Committee of Sponsoring Organizations of the Treadway Commission. It appears that the Proposed Rules would make the auditor ultimately responsible for audit committee functions, internal controls and financial reporting. The proposed rules turn corporate governance on its head. Directors and officers are ultimately responsible for a corporation’s management and financial reporting. The proposed rules alter this responsibility by mandating the audit scope, unduly limiting the use of audit work performed by others, and making auditors the ultimate evaluator of director performance.

Other issues—

Timing of Standards. Based upon the current timetable, it appears that a final standard will not be available until at least March 2004. If this is the case, it will be unlikely that our auditors can evaluate the final standards, develop a testing program and complete all tests at, as currently specified, all 29 locations prior to our fiscal year end. It is a significant, unanswered question as to whether resources exist currently in order to discharge these tasks in the time allotted. We are very concerned that this requirement will place an undue burden and cost upon our management and auditors that will ultimately be borne by our shareholders. Further, our auditor and management will be focused on the Board’s final rules and their application at a time when focusing on the actual audit should be the primary concern. We believe the rules should apply to the first fiscal year following adoption unless the rules are adopted less than six months prior to the start of a fiscal year. In such a case, the rules should not apply until the next subsequent fiscal year.

Cost of Compliance. Although we concur with the goals of the Proposed Rules (improved internal controls and financial reporting), we are very concerned about the costs associated with these goals and the cost/benefit relationship. Our goal has always been to develop and maintain an internal control environment to ensure our financial statements are not only in accordance with generally accepted accounting principles, but is prepared using the most appropriate accounting principles. We have been on the forefront in stressing ethics in all behaviors and in fostering a control environment focussed on “doing the right thing” no matter what the impact on “reported earnings”. However, it is our opinion that if the Proposed Rules are issued in their current form, our

cost of compliance will increase dramatically. We are not in a position to routinely raise prices to cover the incremental costs. Further, because many of our competitors are privately held companies who will not be subject to these incremental costs, we will not be able to remain competitive. Accordingly, it is our opinion that we may be forced to take what may be considered drastic actions in order to reduce our costs. Such steps will reduce costs but they will only negatively impact the quality of our operations and management.