

COUNCIL OF INSTITUTIONAL INVESTORS

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November 24, 2003

Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Release 2003-017
Audit of Internal Control Over Financial Reporting Performed in Conjunction
With an Audit of Financial Statements

Dear Secretary:

The Council of Institutional Investors, an association of more than 140 corporate, public and union pension funds collectively holding more than \$3 trillion in pension assets, is writing in support of the PCAOB's proposed auditing standard, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements."

Audited financial statements are one of the primary sources of information available to guide and monitor Council members' investment decisions. The integrity of these statements is critical to Council members and their millions of pension system participants and beneficiaries. Since effective internal controls are a cornerstone of reliable financial information, Council members are interested in ensuring that internal controls are as effective as possible.

The Council agrees that outside auditors should be responsible for more than simply evaluating the adequacy of management's process for determining whether internal controls are effective. The investing public expects the outside auditor to not simply audit the financial numbers but also to test the effectiveness of a company's internal controls.

The Council wholeheartedly supports the PCAOB's provisions requiring outside auditors to evaluate management's process for determining the effectiveness of internal controls and to test whether the controls are effective and management's determination is appropriate.


Massive accounting scandals in recent years—at large and small companies—have shined a spotlight on outside auditors, audit committees and their critical role in assuring high-quality financial reporting. The Council has supported legislative and regulatory efforts to enhance the independence of audit committees and to ensure greater audit committee and outside auditor accountability to shareholders.

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As a result, the Council strongly supports the proposal requiring the outside auditor to evaluate the effectiveness of the audit committee's oversight of the external financial reporting process and internal control over financial reporting, including whether audit committee members act independently from management.

The Council commends the PCAOB for the thoughtful and comprehensive approach taken in this proposed rulemaking. Please contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'S.A.B. Teslik', written in a cursive style.

Sarah A.B. Teslik
Executive Director