GLASS LEWIS

December 1, 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

Dear Sirs:

The Public Company Accounting Oversight Board (PCAOB) is to be commended for its efforts in preparing its Standard for Audits of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements. The new standard provides a more rigorous auditing practice as proscribed by Section 404(b) and Section 103 (a)(2)(A) of the Sarbanes-Oxley Act. These new practices are essential in restoring investor confidence in both the quality of financial information and the trust placed in the auditing profession.

Glass, Lewis & Co., LLC is an independent proxy and financial research firm that provides research to institutional investors. In that regard, we rely on audited financial statements and disclosures that public companies provide to investors and the capital markets. Our staff has many years of experience as financial analysts, auditors and as chief financial and accounting officers and preparers of financial statements. From our perspective it is vitally important to restore the confidence of the investors in the financial statements and disclosures that they receive, and that the numbers therein be accurate.

Given the audit failures at now infamous companies such as Enron, WorldCom, Rite Aid, and Xerox in which investors lost billions of dollars, significant reforms in auditing standards are necessary. The PCAOB must remember these sweeping reforms are essential in preventing future failures and, that "watering down" the proposals resulting in a continuation of audit standards as they are currently practiced will not satisfy investors' needs.

General Comments

Our general comments on the proposed standard are as follows:

1. We believe the standard should set forth the objectives it is trying to achieve at the beginning of the standard. These objectives should assist auditors and companies in implementing the standard. We believe the basic objectives should state that (a) internal controls over financial reporting are necessary to provide investors with confidence the numbers they receive are correct in all material respects, (b) that management's responsibility is to ensure that such controls are properly designed and working effectively to achieve this goal, and that

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(c) the auditor's obligation is to perform sufficient testing of the internal controls to provide a basis for expressing an opinion to investors as to whether the internal controls are effective, as reported on by management.

2. We strongly agree with the PCAOB that the auditor must perform sufficient testing of the internal controls to meet the objective set forth in (1) above, and that merely testing the process used by management to asses the internal controls is insufficient to provide an independent auditor a basis for reporting on internal controls to investors.

3. We believe the independent auditor should perform the tests of controls, and not delegate it to another party other than is permitted under existing auditing standards, such as to an internal auditor reporting directly to the audit committee, if the report of the auditor states the auditor, and not the auditor "and others" are rendering the opinion on internal controls to investors. We applaud the provisions in the standard requiring the auditor to perform a walk through (paragraphs 79-83), that describe the nature of tests proposed (paragraphs 88-93) and that the auditor should "design the procedures to provide a high level of assurance that the control being tested is operating effectively." (Paragraph 102)

4. The illustrative report set forth in Example A-1 states it is the independent auditor who has audited management's assessment. Accordingly, we believe it is misleading to investors if the auditor uses the work of management and others without clearly stating that in the report to investors. We believe as the proposed standard notes, that the auditor should directly perform all tests of internal controls designed to prevent fraud. We disagree with the proposed standard that the auditor should be permitted to rely on the work of others in testing controls over subjective and judgment accounts including loss accruals and asset valuation accounts. Studies of restatements have clearly shown this is an area of financial reporting that has resulted in a high number of errors and restatements. Accordingly, we believe it is highly questionable as to why a prudent auditor would rely on the work of the very individuals who have time and time again been involved with and overridden controls on these significant accounts. Furthermore, we believe the standard fails to emphasize sufficiently the need for the work of "others" such as internal auditors, to be independent and report directly to the audit committee. We do believe it would be appropriate for an auditor to rely on the work of an independent auditor who reports directly to the audit committee, provided the auditor complies with existing auditing standards regarding using the work of internal auditors.

5. We believe the audit committee plays a critical role in overseeing management, financial reporting, and the internal controls of a public company. Accordingly, despite the conflicts it might present, we do believe the independent auditor must assess the effectiveness of the audit committee or the auditor will not have performed tests of the entire internal control

environment and structure. It would be wrong and misleading to investors when an auditor has not assessed the effectiveness of oversight by the audit committee, for an auditor to report to investors that all the internal controls have been adequately tested.

6. We wholeheartedly support the proposed requirement that all significant deficiencies and material weaknesses in internal controls be BOTH documented AND reported to the audit committee in a timely fashion. If an auditor identifies such control weaknesses at an interim date, we believe they should be reported to the audit committee at that interim date and not on a delayed basis.

7. The proposed standard fails to provide adequate guidance and emphasis on testing of internal controls over those significant account balances, which have proven to be a source of constant errors in financial statements such as revenue, loss accruals, and asset valuations. Given that this has been a weakness in auditing standards for some time, and has clearly resulted in a risk to both auditors and investors, we urge the PCAOB to provide additional guidance on such high-risk areas. We also believe it is important an auditor not rely on the work of management or others for such high-risk accounts.

8. Management override of internal controls has been a recurring theme for many years. This presents a risk to both investors and auditors alike. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) report on Fraudulent Financial Reporting[1], was undertaken to examine what circumstances surrounded cases of alleged fraudulent financial reporting by registrants of the U.S. Securities and Exchange Commission (SEC). In its findings, 83% of frauds were perpetrated by either the CEO or the CFO of the organization by overriding existing internal controls. ***Most*** of the instances occurred at ***small*** companies in which total assets of the company were below $100 million and whose audit committee met only once per year or was nonexistent. These frauds were not isolated to a single fiscal period and typically involved inflating revenues and assets. These are all areas in which more stringent tests of internal controls could have uncovered or possibly even prevented the fraud before investors lost, in many cases, their lifetime savings. Accordingly, we believe the final standard should provide greater emphasis and guidance to auditors in how they might detect weaknesses in internal controls, which would allow such an override to occur. Since the audit committee plays an integral part in preventing such overrides, we once again believe the proposed standard is absolutely correct to require the independent auditor to assess the oversight of the audit committee.

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[1] *Fraudulent Financial Reporting: 1987-97 An Analysis of U.S. Public Companies.* Page 3. Committee of Sponsoring Organizations of the Treadway Commission, 1999.

9. We do not believe exceptions should be granted from the standard, or any provisions thereof, for small businesses. When companies chose to access the capital markets and take money from investors, they also take on an obligation, regardless of size, to ensure their financial disclosures are transparent, accurate and complete on a timely basis. Unfortunately, as mentioned above, many smaller companies have failed in their obligation to investors in this respect. Previous studies of restatements have identified the significant number of restatements by smaller companies. For example, companies with under $100 million in revenues did 48% of all restatements for the five-year period ending December 2002.[2] Accordingly, it would be improper to make any exemption for small businesses. However, we do believe the proposed standard should be more articulate in noting that the internal control structure for a small business may be significantly different than for a large international conglomerate. It would be useful for auditors, we believe, if this is more fully discussed in the standard, as well as how those differences translate into the differences in testing of internal controls in different environments.

10. We do not believe it is appropriate for an independent auditor to report on internal controls to investors, if that auditor has not adequately tested internal controls over each significant account and type of transactions each year. In recent years auditors have "rotated" tests of controls, testing some controls such as over the revenue cycle, while testing other controls such as those over the production cycle in other years. We believe it would be misleading to investors for an auditor to perform tests on a rotating basis while at the same time issuing a report that leads investors to believe all significant internal controls have been tested. Accordingly, we believe the standard should be explicit in prohibiting testing of controls on a rotating basis, or revise the standard report to clarify for investors in a transparent basis, that rotating testing was performed.

11. Our experience also tells us that an auditor will likely fail to recognize significant internal controls and control weaknesses unless they have a good fundamental understanding of the business. We are concerned that in many situations, we have seen junior auditors performing control testing without adequate supervision. Accordingly, we believe the PCAOB should strengthen the guidance in the standard and more fully discuss the need for the auditor to gain a complete understanding of the business, what are the critical factors that influence the success of the business, and how they influence, including from a risk management perspective, the internal controls over financial reporting. We also believe the PCAOB should include inspection of the required business and technical accounting and auditing training as part of its ongoing inspection efforts.

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[2] An Analysis of Restatement Matters: Rules, Errors, Ethics, For the Five Years Ended December 31, 2002. Huron Consulting Group, January, 2003.

12. The proposed standard provides little guidance on how controls over compliance with laws and regulations interface with internal controls over financial reporting. As we have seen in some of the frauds committed in recent years, there were violations of laws and/or regulations that did ultimately have a significant effect on the financial statements. Accordingly, we believe the proposed standard could be significantly improved from an investor's perspective if the standard discusses and mandates testing of controls over compliance with laws and regulations that could have a material affect on a business and its financial statements, including disclosures.

13. We are concerned that in some instances, the "tone" of the document reads more like the auditors should be concerned about over testing rather than under testing of controls. We also have watched as auditors have had undue pressure placed on them to reduce fees, and with that, they have reduced audit testing by undertaking such actions as rotating of testing of internal controls. Some have argued that the cost of internal control testing greatly exceeds the benefits to be derived there from. Some have argued that this exercise is nothing more than auditors trying to "gouge" companies for excessive fees. We could not disagree more with those arguments. Audit fees for the S&P 500 were approximately $1.2 billion in 2001. Investors on Enron alone watched as the value of their stock investments plummeted by over $60 billion. We believe that the costs incurred to comply with the proposed standard would be but a "drop in the bucket" when compared to the benefit investors would gain from increased accuracy in the financial statements they receive.

    We believe the confidence investors will ultimately place, or not place, in the PCAOB will be determined by whether in the future there are significantly fewer financial statements investors receive with errors in them. A good start to gaining that confidence will be for the PCAOB to adopt a standard that ensures an independent set of eyes has thoroughly tested the internal controls that provide reasonable assurance the financial statements are correct in all material respects, including the appropriate disclosures.

14. Some have also argued that the "intent" of Sarbanes-Oxley was that Section 404 would not have any impact on audit fees, given the language that refers to the audit of the financial statements and internal controls being one engagement. Earlier drafts of the legislation did not discuss the one engagement notion. However, in discussions I had with the Staff of the Senate Banking Committee during the drafting of the legislation, they stated a desire to replicate what had been done in the early 1990's in the legislation requiring audits of internal controls of financial institutions. That provided the foundation for the drafting of Section 404. However, the Financial Executives International pushed for language that would result in the audit of the financial statements and the audit of internal controls being performed as one engagement. I also recall discussing this with the Senate Banking Staff and recall that so long as an appropriate audit of BOTH the financial statements

> and internal controls was done, whether it is one or two engagements was not significant. However, it was very clear to me at the time that the intent of the legislation was to result in a mandate similar to that in the legislation for financial institutions. As a result, I believe the intent of the legislation was to ensure that an audit was performed of internal controls of sufficient scope to ensure the internal controls were in fact operating effectively, not just an audit of the process management used in making their assessment.

We appreciate this opportunity to comment on the PCAOB's proposed auditing standard and its efforts to improve the quality of audits and financial statements. Our comments regarding the proposed standard as a whole follow below.

Specific Comments

1. Is it appropriate to refer to the auditor's attestation of management's assessment of the effectiveness of internal control over financial reporting as the audit of internal control over financial reporting?

Yes – For an auditor to be able to attest to any assertion, an audit of management's assertion has to be made; therefore, the terms "audit" and "attestation" essentially become interchangeable. However, it is imperative the auditor tests the internal controls and not just the process management uses in assessing the design and effectiveness of the controls.

2. Should the auditor be prohibited from performing an audit of internal control over financial reporting without also performing an audit of the financial statements?

Yes – Given the enormous financial losses of past audit failures, continuing to allow piece-meal audits does not give a complete view into the entire happenings at a company. Instances where we now know that there were material weaknesses in internal controls, including Rite Aid, Xerox, and WorldCom, to name a few, cost investors billions when a lack of effective internal controls contributed to false and misleading financial statements being provided to investors and regulators. Neither the audit of internal controls nor the audit of the financial statements should be performed in isolation. Without the additional financial statement audit, the true effectiveness of the internal controls (e.g., the accuracy of reported amounts) is not known. Discrepancies identified during the financial statement audit are an indication of the quality and efficiency of the internal controls.

3. Rather than requiring the auditor to also complete an audit of the financial statements, would an appropriate alternative be to require the auditor to perform work with regard to the financial statements *comparable to* that required to complete the financial statement audit?

See answer to question 2 above. If an auditor would be required to perform essentially the same procedures on the financial statements for an audit of internal controls as for *an audit of the financial statements, the company would be duplicating efforts-- an impracticable and costly alternative no company would likely choose.*

Question regarding the costs and benefits of internal control:

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-sized issuers?

We believe "beefing up" the discussion of how differences in business enterprises, including differences in size, affect the internal controls, internal control environment, the assessment process used by management, etc could enhance the standard. Since the proposed standard allows a large degree of auditor judgment in determining what evidence is sufficient, significant variations are still possible and can be subject to interpretation for individual companies. As previously mentioned, a significant number of frauds involving financial reporting occur at small and medium-sized companies. COSO's study of Fraudulent Financial Reporting concluded, "The relatively small size of fraud companies suggests that the inability or even unwillingness to implement cost-effective internal controls may be a factor affecting the likelihood of financial statement fraud (e.g., override of controls is easier)." In other words, since fraud often happens at small and medium-sized companies, controls at small and medium-sized companies are just as (if not more) important and should be given the same scrutiny as larger companies although different methods may be needed to do so.

Question regarding the audit of internal control over financial reporting:

5. Should the Board, generally or in this proposed standard, specify the level of competence and training of the audit personnel that is necessary to perform specified auditing procedures effectively? For example, it would be inappropriate for a new, inexperienced auditor to have primary responsibility for conducting interviews of a company's senior management about possible fraud.

Yes – Each audit firm should individually determine the competence, training, and supervision of its own audit personnel in accordance with its risk assessment of the engagement and standard practices according to AU 150. However, the standard on auditing internal controls should be expanded to ensure that the auditors at all levels (and especially the ones actually performing the work) understand the industry, business transactions of the company under audit, its business risks, and how internal controls should work in that business. This should include training, work review, and supervision of audit procedures. An example of how imperative adequate business risk training can be found in the SEC's Litigation Release 48372 in which the lead audit partner was implicated in an audit failure for "recklessly failing to plan and supervise…audits".[3] In that case, the entire audit team was new to the engagement except for the partner. Due to their inexperience and lack of supervision, certain necessary audit procedures were

[3] http://www.sec.gov/litigation/opinions/34-48372.htm

misapplied and the staff did not have the knowledge to exercise professional skepticism. The result: a material misclassification and material misstatement in the financial statements that was undetected.

Questions regarding evaluation of management's assessment:

6. Is the scope of the audit appropriate in that it requires the auditor to both evaluate management's assessment and obtain, directly, evidence about whether internal control over financial reporting is effective?

Yes – Evaluating management's assessment alone is not sufficient. By requiring both evaluations, the auditor obtains evidence about whether management is competent, has integrity and that internal controls over financial reporting are effective.

7. Is it appropriate that the Board has provided criteria that auditors should use to evaluate the adequacy of management's documentation?

Yes – The requirements reinforce for auditors and management how critical well-designed internal controls are to quality financial reporting.

8. Is it appropriate to state that inadequate documentation is an internal control deficiency, the severity of which the auditor should evaluate? Or should inadequate documentation automatically rise to the level of significant deficiency or material weakness in internal control?

Yes – Inadequate documentation is consistent with the definition of an internal control deficiency. Our experience has shown, especially in businesses with international operations, that a lack of consistent documentation for employees, and/or a lack of training, results in deficiencies in the effectiveness of internal controls. If there is a lack of documentation of internal controls, we believe it is likely that at least some employees will not fully understand and perform the functions necessary for controls to work properly. In those instances, a lack of documentation of controls also results in a lack of accountability within the organization. In fact, we believe much of the uproar among companies having to undergo testing of internal controls, is caused by a failure of companies to adequately document and/or update their documentation of internal controls, thereby resulting in a lack of reasonable controls in some instances, and the need to incur costs that should have been incurred all along to provide for reasonable controls over financial reporting.

Questions regarding obtaining an understanding of internal control over financial reporting:

9. Are the objectives to be achieved by performing walkthroughs sufficient to require the performance of walkthroughs?

Yes – Independently performing walkthroughs of control activities is one of the strongest forms of audit evidence that cannot be obtained through documentation or reliance on the work of others. We strongly applaud the PCAOB for adopting this requirement.

10. Is it appropriate to require that the walkthrough be performed by the auditor himself or herself, rather than allowing the auditor to use walkthrough procedures performed by management, internal auditors, or others?

Unequivocally yes – see above.

Question regarding testing operation effectiveness:

11. 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?

The auditor will be required to report on the effectiveness of internal controls as of a date in a year. Accordingly, the auditor should perform sufficient testing during the relevant period to ensure the controls are effective at the specified point in time. It would be extremely misleading to investors to report on the effectiveness of controls as of a date, if in fact those controls had not been tested during the year. As a result, "rotating testing" of controls, whereby only a portion of the internal controls are tested each year should be explicitly prohibited in the final standard. If testing of internal controls is permitted and performed on a rotating basis in the final standard, that should also be required to be communicated in the auditor's report.

Questions regarding using the work of management and others:

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

Using the work of others should only be permitted to the extent these procedures would be permitted in a financial statement audit. The crux of the audit is to have an independent external opinion formed by examining the controls themselves. When reliance on management's work is allowed, management is effectively providing the opinion on that portion of the audit. Investors would hardly consider this to be an independent audit or report.

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

The categories are appropriately defined. However, as previously noted, we believe the proposed standard provides for too much reliance on the use of management or others, except with respect to an internal audit function that is technically competent and that reports directly to the audit committee.

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?

See below #15.

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)?

If an auditor plans to rely completely on a test for the opinion, the auditor should be required to have performed or at least adequately re-performed the test to an appropriate extent. Existing audit standards provide appropriate guidance with respect to the reliance on the work of internal auditors. We do not believe any reliance should be placed on the testing performed by individuals who are not independent within existing auditing literature if the report states it is the report of an independent auditor.

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?

Yes – see above #15.

Questions regarding evaluating results:

17. Will the definitions in the proposed standard of significant deficiency and material weakness provide for increased consistency in the evaluation of deficiencies? How can the definitions be improved?

Yes – Providing three levels of deficiency definition is an improvement on reportable condition and material weakness as used in the existing Auditing Standards Board guidance. However, one of the problems in the past has been that auditors have failed to report even material weaknesses until shortly before or after they were terminated. As a result, the PCOAB should consider and assess whether the new standard will, in fact, improve the likelihood that once deficiencies are identified, they will actually be reported to the audit committee on a timely basis.

18. Do the examples in Appendix D of how to apply these definitions in various scenarios provide helpful guidance? Are there other specific examples that commenters could suggest that would provide further interpretive help?

Yes – For example, in the WorldCom case, a lack of timely and periodic reconciliation of intercompany accounts did contribute to errors in the financial statements.

19. Is it necessary for the auditor to evaluate the severity of all identified internal control deficiencies?

Yes – In order to determine that an identified internal control deficiency is neither a significant deficiency nor a material weakness, its severity must be determined. Appropriate classification would not otherwise be possible.

20. Is it appropriate to require the auditor to communicate all internal control deficiencies (not just material weaknesses and significant deficiencies) to management in writing?

Yes – Both from an auditor's liability standpoint and for management's own continuous improvement, all deficiencies should be communicated to management in writing. The deficiencies should also be required to be communicated to the audit committee members as representatives of investors. All deficiencies need not be listed in the opinion, but those findings could be helpful to management and the audit committee in determining areas that need strengthening or may become a significant deficiency in subsequent periods.

21. Are the matters that the Board has classified as strong indicators that a material weakness in internal control exists appropriately classified as such?

Yes

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?

Yes – As mentioned in the opening remarks, the ineffectiveness of audit committees appeared to weigh heavily on the ability of fraud perpetrations and the reliability of the financial statements as a whole. The audit committee plays a large role in establishing the "Tone at the Top" in an organization. This tone is imperative for a reliable control environment to be established and should be communicated to interested parties by auditors. Auditors should already be considering this as part of overall engagement risk and client acceptance policies.

23. Will auditors be able to effectively carry out their responsibility to evaluate the effectiveness of the audit committee's oversight?

Yes – Although some have raised the potential for conflict as the audit committee hires the auditor, that conflict is less significant in our opinion than an auditor not testing a very material and significant part of the control environment – the oversight function. It is inconceivable that one could report on internal controls effectiveness knowing that in 83% of financial frauds management has overridden the controls and, perhaps the most significant control addressing such overrides, is the oversight by the audit committee. An audit committee, including its financial expert plays an important role in selecting and overseeing the Chief Financial Officer. As a result, the auditors should test the effectiveness of the audit committee. This testing should include the audit committee's process and involvement in handling reports of fraud, the review of the scope of the audit, the responsiveness to issues raised by auditors, and the level of review of related *party and complex transactions. The review should also consider the role and involvement of the financial expert. Congress and the SEC would not have mandated the need for and disclosure of a financial expert on the audit committee if that were not a critical role.*

24. If the auditor concludes that ineffective audit committee oversight is a material weakness, rather than require the auditor to issue an adverse opinion with regard to the effectiveness of the internal control over financial reporting, should the standard require the auditor to withdraw from the audit engagement?

No – Either option may be appropriate; however, other extenuating circumstances could make one more preferable than the other on a case-by-case situation.

Questions regarding forming an opinion and reporting:

25. Is it appropriate that the existence of a material weakness would require the auditor to express an adverse conclusion about the effectiveness of the company's internal control over financial reporting, consistent with the required reporting model for management?

Yes – By its very definition, a material weakness implies that a significant control is not operating effectively and should result in an adverse opinion on the company's internal control. Material weaknesses should be disclosed in order to provide more transparency in financial information. Subsequent to changing auditors, Rite Aid and Xerox disclosed in 8K's filed with the SEC[4] that material weaknesses had been noted in their internal control. Had investors known of the weaknesses on a timely basis, their decisions may have been different and they may not have lost over $3 billion as a result of subsequent restatements and decreased stock valuations.

26. Are there circumstances where a qualified "except for" conclusion would be appropriate?

No – A material weakness is indicative that a pervasive risk is present that due to its very nature would be difficult, if not impossible, to mitigate with other controls or additional procedures

27. Do you agree with the position that when the auditor issues a nonstandard opinion, such as an adverse opinion, that the auditor's opinion should speak directly to the effectiveness of the internal control over financial reporting rather than to whether management's assessment is fairly stated?

Yes – Existing confusion would be greatly reduced by this change in language.

Questions regarding auditor independence:

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[4] Rite Aid Corp Form 8-K, November 19, 1999 and Xerox Corp Form 8-k, October 5, 2001.

28. Should the Board provide specific guidance on independence and internal control-related non-audit services in the context of this proposed standard?

Yes – Guidelines need to be established that define how much assistance auditors can provide in management's documentation of internal controls without having to opine on their own work. We do not believe an auditor should perform the documentation of internal controls, even if management takes responsibility for that documentation. We commend those accounting firms, such as Grant Thornton, that have publicly expressed a similar view.

29. Are there any specific internal control-related non-audit services the auditor should be prohibited from providing to an audit client?

Yes – An auditor should be prohibited from acting in a consultant role in designing and implementing internal controls over financial reporting and documenting existing procedures for management. These are services that would impair independence with respect to the audit of internal controls over financial reporting.

Questions regarding auditor's responsibilities with regard to management's certifications:

30. Are the auditor's differing levels of responsibility as they relate to management's quarterly certifications versus the annual (fourth quarter) certification, appropriate?

Yes – Just as the requirements differ at quarterly periods versus annual ones for audits of the financial statements, a differing responsibility would be expected at quarterly periods for audits of internal controls. The required responsibility should be lessened since no audit is being performed as of these interim periods. Requiring the auditor to issue a quarterly audit opinion on internal controls would also require a quarterly audit of the financial statements. The proposed standard's requirements as they relate to management's quarterly certification are consistent with the requirements for reviewing quarterly financial information.

31. Is the scope of the auditor's responsibility for quarterly disclosures about the internal control over financial reporting appropriate?

Yes – The scope proscribed is essentially the same level of review that is performed on the financial statements for the corresponding periods.

Summary

The proposed standard makes great strides in improving the reliability of financial information and making management more accountable for its processes and procedures. As an advocate of investors, we hope the final rules will not be swayed by the outcry of affected parties that the proposal will be too costly and time intensive to implement.

The PCAOB's consideration of these comments is greatly appreciated. If further clarification of these points is desired, please contact us.

Regards,

Lynn E. Turner

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Managing Director of Research
Glass, Lewis & Co., LLC

cc: Mr. Donald Nicholiasen, Chief Accountant, Securities and Exchange Commission