American Federation of Labor and Congress of Industrial Organizations

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May 16, 2005

BY ELECTRONIC MAIL

Laura Phillips
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Re: Comment on Proposed Auditing Standard – Reporting on the Elimination of a Material Weakness (PCAOB Rulemaking Docket Matter No. 018)

Dear Ms. Phillips:

On behalf of the American Federation of Labor and Congress of Industrial Organizations, I welcome this opportunity to offer our comments on the Public Company Accounting Oversight Board's ("PCAOB" or "the Board") proposed auditing standard which would establish requirements that apply when an auditor reports on the elimination of a material weakness.

The AFL-CIO is the federation of America's labor unions, representing fifty-seven national and international unions and their membership of 13 million working women and men. Union members participate in the capital markets as individual investors and through a variety of benefit plans. Union members' benefit plans have over $5 trillion in assets. Union-sponsored pension plans account for over $400 billion of that amount.

The AFL-CIO supports the PCAOB's creation of an auditing standard addressing interim reporting on the elimination of material weaknesses. This proposed auditing standard would create a mechanism by which companies may receive a report from their outside auditor on the correction of a material weakness in the most timely fashion possible. The alternative is the mistaken impression on the part of investors that a material weakness continues uncorrected until the next year's audit report.

However, a report on a corrected material weakness may in itself be misleading if not properly structured. We believe it is particularly important that there is a reference in any report of the kind contemplated by the proposed standard to any remaining uncorrected material weaknesses. Without such a reference, the report would communicate the false impression to investors that all material weaknesses had been corrected, and would encourage an inappropriately strategic use of this mechanism by companies.

In addition, and perhaps even more importantly, if this interim engagement led to the auditor becoming aware of a material weakness that had not been identified in the most recent audit, the auditor should be required to disclose that weakness as well. Otherwise, the interim report contemplated in the proposed rule becomes simply a way of telling investors only the good news while management and the auditor concealed bad news.

The concern has been raised that the requirement to mention continuing or new material weaknesses would discourage the use of this reporting process by companies. We suspect that the real value of the sort of reporting contemplated by the proposed standard is when all material weaknesses have been corrected. Fully informed investors are unlikely to respond to selective corrections of material weaknesses. The PCAOB should not facilitate misleading investors as to whether all material weaknesses have been corrected or not simply because companies may not like what investors do with the information.

The PCAOB has further requested comment on whether auditors should be allowed to report on the elimination of material weaknesses that had not been previously identified in the audit report but which are now corrected. We believe auditors should be allowed to so report, *but only if auditors are required to disclose uncorrected material weaknesses that have come to the attention of the auditor since the last audit report.*

Finally, the proposed standard provides that if an auditor determines that the material weakness has not been eliminated and is ordered to test again, the auditor would be required to communicate to the company's audit committee that the weakness had not been eliminated on the second occasion. We support this provision of the proposed rule, as in general we support regulations reinforcing the provisions of Sarbanes-Oxley that make clear the independent auditor works for the audit committee, not for the management of public companies.

We thank you for this opportunity to comment on this proposal. If you have any questions regarding our comments, please feel free to contact me at (202) 637-3953.

Sincerely,

Damon Silvers
Associate General Counsel, AFL-CIO