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May 16, 2005

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N. W.
Washington, DC 20006-2803

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

Dear Mr. Secretary,

BDO Seidman respectfully submits the following comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") proposed auditing standard ("the proposed standard"), *Reporting on the Elimination of a Material Weakness*. We support the efforts of the PCAOB in responding to investor and company management concerns regarding the need for a mechanism to provide an objective third party assessment of management's disclosure concerning internal control improvements. The proposed standard advances the concepts of transparency, timeliness, and objectivity by providing a mechanism that facilitates a meaningful dialogue between company management and capital market participants. This dialogue is an integral component in the continuing efforts to rebuild investor confidence in financial reporting.

Overall, we support the major provisions of the proposed standard and appreciate the opportunity to respond to the questions posed by the Board. We provide our response to the questions posed by the Board in part IX of the release that accompanied the proposed standard, and have included an additional comment regarding documentation.

Responses to Questions Posed by the Board

PCAOB Question 1: Does the sample auditor's report, which is included in the proposed standard, clearly describe the results of the engagement? If not, how might it communicate more clearly to report users?

In our view the sample auditors' report should include the following items to better clarify the scope of the work performed and conclusions reached based on the audit work performed.

Wording of Report

To appropriately describe and report on the resolution of a material weakness in the type of engagement contemplated in the proposed standard, we propose that the opinion paragraph in the report be modified to describe the circumstances in which the material weakness has been resolved as follows:

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> "In our opinion, the material weakness described above as of [date of management's assertion] no longer exists due to [describe the actions or circumstances which caused the material weakness to no longer exist]"

We believe this wording more clearly communicates to the reader that the material weakness that was previously reported is no longer considered a material weakness and provides the user with additional qualitative information to describe why the conclusion was reached. This allows for situations where a material weakness no longer exists due to changes in controls put in place by company management, or other situations where changes in operations or the business environment contributed to the resolution of the previously reported material weakness.

Material Weaknesses Based on Aggregation

Additionally, there may be circumstances in which a material weakness was reported in the prior year due to the aggregation of multiple deficiencies. We believe it might be misleading to permit an opinion that states a material weakness has been corrected in situations where only some of the original deficiencies were remediated. We suggest that this communication be addressed by requiring additional explanatory language in the opinion, as previously suggested.

Operational or Environmental Changes

In certain instances a material weakness will be resolved by the company based in part or entirely on changes in operations or the business environment. For example, a registrant may reduce certain operations for business reasons or may enter into a significant acquisition which results in the previously reported material weakness no longer being material. In these situations the material weakness was not corrected, but the control that did not previously function is no longer needed to meet the overall objective. We believe that our suggested opinion language allows for the auditor to report on this type of resolution of a material weakness, provided an appropriate description of the actions or circumstances contributing to the resolution are provided. We recommend that additional guidance be included in the proposed standard to clarify the auditor's responsibilities in these situations.

Combined Reporting

We expect registrants will frequently engage the auditor to report on resolution of a material weakness prior to filing their annual report on Form 10-K, to enable inclusion of the auditor's report on the resolution of the material weakness to also be included in the annual report. In this circumstance, we recommend that the auditor be permitted to combine the annual report on internal controls with the report on resolution of material weaknesses. We believe that a combined report will provide a clearer and more meaningful communication to users, and further encourage registrants to address identified material weaknesses in a timely manner.

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PCAOB Question 2: *If the auditor does not express an opinion on all of the material weaknesses that were identified during the company's most recent audit of internal control over financial reporting, should the proposed standard require the auditors' report to specifically identify the additional material weaknesses?*

Would such a requirement provide helpful information to report users or would it detract from an otherwise clear communication by implying that the auditor believes that those material weaknesses do still exist or that only those material weaknesses exist (i.e., no other controls have materially deteriorated since the date of the annual assessment of internal control over financial reporting)?

Might specific identification of other material weaknesses not addressed by the auditors' report deter companies from engaging the auditor to perform this work unless the company believed that all previously reported material weaknesses had been eliminated?

Our view is that the failure to cite the existence of any remaining material weaknesses could be misleading to users. Accordingly, we recommend such a disclosure in the auditor's report or a reference in the auditor's report to an accompanying note. Whether such disclosures might deter companies from engaging the auditor to perform this work is likely to be based on facts and circumstances.

PCAOB Question 3: *Should this standard allow an auditor to report on the elimination of a material weakness in the circumstance in which the material weakness was identified and eliminated by management as of an interim date (in other words, identified and eliminated without ever being addressed in the company's Section 404 reporting)?*

We believe it would be problematic in some cases for the auditor to attest to the remediation of a weakness that arose and was remediated within or between interim periods. For issues arising during the quarters, auditor responsibilities are generally limited to observation and inquiry procedures. Thus, the auditor often has only a limited basis for assessing the reasonableness of the company's interim disclosure, and the specific issues and circumstances surrounding the nature and extent of the material weakness that was reported. Moreover, since the auditor may not have obtained sufficient evidence for determining whether, in fact, the weakness that was remediated was a material weakness, any reporting on this matter needs to reflect this circumstance.

The requirements in this proposed standard for obtaining evidence of the design and operation of controls and for the auditor's test of the controls set a high standard for the performance of an engagement to report on the remediation of a material weakness. In our view, to attest to the remediation, the auditor may need considerable evidence concerning the nature of the weakness and controls design in place when the weakness was identified and reported to ensure that the weakness was fully and appropriately

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analyzed. This may be difficult or impossible to do in situations where the auditor was not significantly involved at the time with management's identification of the material weakness. To expand, directly or indirectly, the auditor's involvement with interim issues will increase audit costs, and is potentially inconsistent with the focus of AS 2 -- the effectiveness of controls over financial reporting as of the period end date.

Since the company is not precluded from disclosing its view that the previously reported weakness was remediated, we believe that the market purpose for disclosure can be met without auditor attestation. However, if the Board concludes that such an attest engagement should be permitted, we believe that additional guidance is needed to address when this type of engagement would be appropriate and to expand the guidance with respect to the sufficiency of evidence needed to satisfy the requirements of the proposed standard.

Additional Comment - Documentation

Auditing Standard No. 2 paragraph 20.c. states that for the auditor to satisfactorily complete an audit of internal control over financial reporting, management must support its evaluation with sufficient evidence, *including documentation.* The proposed standard, however, in paragraph 7, states that the auditor may report on a company's elimination of a material weakness only if certain conditions are met, including item d. which requires that management support its assertion with sufficient evidence. There is no reference in the proposed standard to any documentation requirement by management to support its evaluation. Clarification is needed to explain why the documentation clause was omitted from management's responsibilities.

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We appreciate your consideration of our comments and suggestions and would be pleased to discuss these matters further with the PCAOB and its staff.

Please direct any questions to Wayne Kolins, National Director of Assurance at 212-885-8595 or wkolins@bdo.com.

Very truly yours,

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