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February 22, 2007

**Office of the Secretary
Public Company Accounting Oversight Board (“PCAOB”)
1666 K Street, N.W.
Washington, D.C.**

Re: PCAOB Rulemaking Docket Matter No. 021 – Proposed Auditing Standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financials Statements* and Related Auditing Standard *Considering and Using the Work of Others in An Audit*

Ladies and Gentlemen:

Accretive Solutions (“Company”) is a leading privately-held professional services firm which provides consulting, executive search, and interim solutions in the areas of accounting and finance, enterprise governance, and business and technology. Our services are provided via a growing network of offices located in 14 major metropolitan areas. Since the enactment and implementation of the Sarbanes-Oxley (“SOX”) Act of 2002, the Company has provided SOX compliance services to hundreds of U.S.-based companies who either are or aspire to be public filers with the Securities and Exchange Commission (“SEC”). Working collaboratively with client management and our clients’ external auditors, we have gained a unique perspective of the process by which SOX compliance is demonstrated from both the client and external auditor vantage points.

Accretive Solutions has a significant and continued interest in the rulemaking activities of the PCAOB and the SEC. We welcome this opportunity to provide our comments related to PCAOB Rulemaking Docket Matter No. 021 - proposed Auditing Standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financials Statements* and the related Auditing Standard, *Considering and Using the Work of Others in An Audit*.

Executive Summary

We recognize and applaud the PCAOB’s efforts to provide further clarification to existing SOX compliance guidance, most importantly Auditing Standard No. 2 (“AS No. 2”) – *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*, which was approved by the SEC on June 17, 2004. While AS No. 2 has been useful to the conceptual understanding of SOX Section 404 (“404”) requirements, an overly conservative and often inconsistent interpretation of the 404 requirements has been followed by some external firms, as supported by the number of comments that the PCOAB and the SEC has received related to the perceived high cost related to the implementation and maintenance of 404 compliance.

Having reviewed the proposed Auditing Standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* and *Considering and Using the Work of Others in An Audit*, Accretive Solutions believes that the proposed standard will facilitate a more consistent, practical approach to the implementation and maintenance of 404 compliance requirements.

We recognize that the PCAOB's intent is to utilize *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* and *Considering and Using the Work of Others in An Audit* to:

- Focus the audit on matters most important to internal control;
- Eliminate unnecessary audit procedures;
- Scale the audit for smaller companies; and
- Simplify SOX compliance requirements.

That being stated, we feel that the documented guidance and resulting interpretation of several critical paragraphs of the proposed standard may still be too ambiguous and overly subjective to effectively ensure consistent implementation among all public filers and external auditor firms. Our greatest concern relates to the following themes:

- **Top-Down Risk-Based Approach** - The documented concept / approach is sound; however, implementation of the standard as currently proposed will continue to require a high level of subjectivity due to a lack of definitive guidance as to the practical application of the top-down risk-based approach. This lack of definitive guidance will lead to inconsistent application by public filers and their external auditors.
- **Company-Level Controls** - More descriptive guidance is needed related to the level of reduction or elimination of substantive tests of internal controls in the event that company-level controls are found to be effective.
- **Sample Sizes for Smaller Companies** - The use of absolute sample sizes without appropriate consideration of total population size will continue to result in "over-sampling" in relatively smaller, non-accelerated companies, leading to relatively higher SOX costs for such companies.
- **Scope of Testing in Multi-Location Engagements** - The proposed auditing standard is too ambiguous related to the scope of testing in multi-location engagements. We feel that a combined coverage similar to AS No. 2, taken in combination with the proposed top-down risk approach, will allow for greater flexibility and increased efficiency for the audit.
- **Definition of the Term "Significant"** - In serving our clients, we have observed that the term "significant" is a highly subjective. We would like to see required communication between company management and external auditors regarding the definition (i.e. dollar amount) of materiality. We feel greater clarity in this regard will improve efficiency of the audit.
- **Definition of the Terms "Material Weakness" and "Significant Deficiency"** - The proposed standard does not provide significantly improved clarification of the definitions as previously documented in AS No. 2. As a result, we fear that the determination of whether internal control deficiency or aggregated deficiencies represent a "Material

Weakness” or “Significant Deficiency” will continue to be highly subjective and highly subject to each external auditor firm’s interpretation.

Accretive Solutions supports the spirit and intent of the proposed standard. Nevertheless, we believe that the above points need additional consideration and clarification prior to finalization of the standard so as to prevent inconsistent application of future guidance by key SOX compliance stakeholders.

Accretive Solution’s responses to the questions included in PCAOB Release No. 2006-007, dated December 19, 2006, are presented in the remainder of this document.

Detailed Responses to Questions Included in PCAOB Release No. 2006-007

1. Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?

Yes, from a conceptual perspective. No, from the perspective of practical application by public filers and external auditors. We feel that more specific details and examples of practical application are needed, including specific parameters around what is or is not a significant account, significant process, etc. We would also appreciate clearer guidance on how to apply risk assessment within the top-down approach as discussed in paragraphs 16 to 46 of the proposed standard. Consistent guidance as to how to more effectively evaluate risk would be useful. We feel the proposed standard’s discussion of risk assessment is too general and will be open to varied and inconsistent interpretation.

2. Does the proposed standard place appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud?

Yes. We feel that appropriate emphasis has been placed on the prevention and detection of fraud within the proposed standard.

3. Will the top-down approach better focus the auditor’s attention on the most important controls?

We are optimistic that the top-down approach will better focus the auditor’s attention on the most important controls. Since AS No. 2 was approved by the SEC, Accretive Solutions has been utilizing a top-down approach as the foundation for our methodology of assisting our clients to achieve SOX compliance.

However, we remain concerned that the lack of definitive guidance on the practical application of the top-down approach will enable external audit firms to take an overly conservative audit approach and will lead to continued external auditor “overkill” related to controls that are not of greatest importance to financial reporting.

4. Does the proposed standard adequately articulate the appropriate consideration of company-level controls and their effect on the auditor’s work, including adequate description of when the testing of other controls can be reduced or eliminated?

No. We feel that more descriptive guidance is needed related to the level of reduction or elimination of substantive tests of internal controls when company-level controls are found to be effective.

5. Does the proposed standard appropriately incorporate risk assessment, including in the description of the relationship between the level of risk and the necessary evidence?

Yes. We feel that paragraphs 51 and 52 of the proposed standard adequately address the relationship between level of risk and necessary audit evidence.

6. Would the performance of a walkthrough be sufficient to test the design and operating effectiveness of some lower risk controls?

Yes. Additional clarification within paragraph 36 would be useful. Paragraph 36 states “The auditor should perform a walkthrough on each significant process.” It would be helpful to truly define the term “significant” to enable consistent application of this section of the proposed standard.

7. Is the proposed definition of “significant” sufficiently descriptive to be applied in practice? Does it appropriately describe the kinds of potential misstatements that should lead the auditor to conclude that a control deficiency is a significant deficiency?

No. In serving our clients, we have observed that the term “significant” is a highly subjective term which means different things to different people. We would prefer to see more open communication between company management and external auditors regarding the definition of materiality as it relates to each unique company’s audit. Greater clarity in this regard would significantly improve the efficiency of the audit.

8. Are auditors appropriately identifying material weaknesses in the absence of an actual material misstatement, whether identified by management or the auditor? How could the proposed standard on auditing internal control further encourage auditors to appropriately identify material weaknesses when an actual material misstatement has not occurred?

Identification of material weaknesses when an actual material misstatement has not occurred continues to be a highly subjective assessment which is often made by the external audit firm based on who identified the potential misstatement and at what point in the audit the deficiency was identified. Additional guidance related to indicators for the identification and disclosure of material weaknesses is appreciated as it relates to deficiencies that do not result in actual material misstatements.

9. Will the proposed changes to the definitions reduce the amount of effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of material misstatement to the financial statements?

We are optimistic that the proposed changes to the definitions will have a positive impact in this regard. However, we remain concerned that a lack of definitive guidance in the proposed standard related to the aggregation and assessment of deficiencies will result in continued inconsistency in the assessment of the level of deficiencies by the external auditors.

10. Should the standard allow an auditor to conclude that no deficiency exists when one of the strong indicators is present? Will this change improve practice by allowing the use of greater judgment? Will this change lead to inconsistency in the evaluation of deficiencies?

Yes. We feel that the standard should allow an auditor to conclude that no deficiency exists when one of the strong indicators is present. Based on our experience working with our clients to achieve SOX compliance under AS No. 2, we have noted that external auditors have generally felt uncomfortable utilizing “professional judgment” and instead have taken an overly conservative stance when strong indicators are present. We believe that “strong indicators” are not definitive circumstances that always require classification as a significant deficiency.

We have observed high levels of inconsistency in interpretation of AS No.2 and feel that this change will positively impact future audits.

11. Are further clarifications to the scope of the audit of internal control needed to avoid unnecessary testing?

Yes. Please see our previous comments to questions #1 and #4. It is our opinion that there should be more guidance on sample size requirements related to high risk controls versus low risk controls. In our opinion, low risk controls can be sufficiently covered by a walkthrough with no need for further detail testing. From a common-sense perspective, we believe that controls with mid-level risk should only require half the amount of testing as that of a high risk process controls. Without further definitive guidance, we believe certain external audit firms may continue to apply varying standards in an overly conservative manner.

12. Should the reference to interim financial statements be removed from the definitions of significant deficiency and material weakness? If so, what would be the effect on the scope of the audit?

Yes. By applying the annual materiality threshold, the audit process will be more efficient and external auditors will be enabled to focus on more important items.

13. Will removing the requirement for an evaluation of management’s process eliminate unnecessary audit work?

Yes. The current practice of many external audit firms is to audit all of company management’s tests and conclusions and then perform additional independent tests utilizing separate samples. Although we feel the auditors need to have a clear understanding of the process that management has taken to arrive at their assessment, we feel that auditing the same transactions / controls multiple times is unnecessary, inefficient, and costly.

We feel that removing the requirement for an evaluation of management’s process is a significant positive step in eliminating unnecessary audit work.

14. Can the auditor perform an effective audit of internal control without performing an evaluation of the quality of management’s process?

Yes. As mentioned in the response to question 13, assuming that the external auditor:

- has a clear understanding of the manner in which company management has identified key risks and controls related to significant accounts and processes;
- has a clear understanding of company management’s testing approach / plan / activities; and
- has evaluated the competency level of the resources who have performed testing and evaluated test results,

the external auditor should be able to perform an effective audit of internal control without evaluating the quality of management’s process.

15. Will an opinion only on the effectiveness of internal control, and not on management’s assessment, more clearly communicate the scope and results of the auditor’s work?

Yes. We believe that an opinion only on the effectiveness of internal control will more clearly communicate the scope and result of the external auditor’s work. We feel that AS No. 2’s requirement that the auditor opine on the effectiveness of company management’s process of assessing internal control has contributed to the relatively high cost of SOX compliance for public filers, with limited incremental value to the audit process.

16. Does the proposed standard appropriately incorporate the value of cumulative knowledge?

Yes. We are comfortable with the manner in which the value of cumulative knowledge has been addressed within the proposed standard.

17. What are the circumstances in which it would be appropriate for the auditor to rely upon the walkthrough procedures as sufficient evidence of operating effectiveness?

We feel that walkthrough procedures are sufficient for low risk areas, as defined during the scoping process. For moderate and high risk areas, we feel that walkthroughs should continue to be utilized to evaluate the design of the internal controls prior to initiation of testing of internal control effectiveness.

18. Will the proposed standard’s approach for determining the scope of testing in a multi-location engagement result in more efficient multi-location audits?

No. The proposed auditing standard is too ambiguous. We feel that a combined coverage (similar to AS No. 2) in conjunction with the proposed top-down risk approach will allow for greater flexibility and increased efficiency for the audit. For example, if a location cannot materially affect the financial statements, other risks should not impact the conclusion to eliminate that location from the scope of the audit. In contrast, if the location is considered necessary for scope coverage but the inherent risks within the account or process are considered low, the auditor should be able to conclude that testing at the location is not necessary.

19. Is the proposed standard’s single framework for using the work of others appropriate for both an integrated audit and an audit of only financial statements? If different frameworks are necessary, how should the board minimize the barriers to integration that might result?

Yes. We feel that the proposed standard’s single framework for using the work of others is appropriate for both the integrated audit and the audit of only financial statements.

20. Does the proposed definition of relevant activities adequately capture the correct scope of activities, including activities that are part of the monitoring component of internal control frameworks?

Yes. We are comfortable with the proposed definition of relevant activities.

21. Will requiring the auditor to understand whether relevant activities performed by others identified control deficiencies, fraud, or financial statement misstatements improve audit quality?

Yes. We believe that requiring the auditor to understand the results of relevant activities performed by others will improve audit quality.

22. Is the principal evidence provision that was in AS No. 2 necessary to adequately address the auditor’s responsibilities to obtain sufficient evidence?

Yes. It is our opinion that the principal evidence provision in AS No. 2 continues to be necessary to adequately address the auditor’s responsibilities to obtain sufficient evidence.

23. Does the proposed standard provide an appropriate framework for evaluating the competence and objectivity of the persons performing the testing? Will this framework be sufficient to protect against inappropriate use of the work of others. Will it be too restrictive?

It is our opinion that the proposed standard provides an appropriate framework for evaluating the competence and objectivity of the persons performing internal control testing. We believe the framework will be sufficient to protect against the inappropriate use of work of others without being overly restrictive.

24. Has the Board identified the right factors for assessing competence and objectivity? Are there other factors the auditor should consider?

We are comfortable with the factors that the PCAOB has identified for assessing the competence and objectivity for the work of others.

25. What will be the practical effect of including, as a factor of objectivity, a company's policies addressing compensation arrangements for individuals?

We believe that company policies addressing compensation arrangements for individuals can be effectively considered in the auditor's consideration of the effectiveness of company-level controls.

26. Will requiring a walkthrough only for all significant processes reduce the number and detail of the walkthroughs performed without impairing audit quality?

Yes. We feel that requiring a walkthrough only for all significant processes will reduce the number and detail of the walkthroughs without impairing audit quality.

27. Is it appropriate for the auditor to use others as direct assistance in performing walkthroughs? Should the proposed standard allow the auditor to more broadly use the work of others in performing walkthroughs?

Yes. Using the assistance of others who are competent and objective will improve the overall efficiency of the audit.

28. Does the proposed standard on auditing internal control appropriately describe how auditors should scale the audit for the size and complexity of the company?

No. More specific guidance related to approved sample sizes for smaller, less complex public filers is needed to ensure consistent application by all external audit firms. Without such guidance, we feel that external auditor sample sizes will continue to vary and the potential for external auditor testing "overkill" will remain high.

29. Are there other attributes of smaller, less-complex companies that the auditor should consider when planning or performing the audit?

Yes. Further clarification on what is sufficient evidence of effective company-level controls in a smaller company is needed. Further guidance regarding alternative or corroborating controls in the event of lack of segregation of duties due to small staff sizes would be helpful.

30. Are there other differences related to internal control at smaller, less complex companies that the Board should include in the discussion of scaling the audit?

A principal difference regarding internal control at smaller, less complex companies relates to the general lack of company personnel which prohibits optimal segregation of duties. Allowances should be made for alternative or corroborating controls in the event of lack of segregation of duties so that costly headcount additions are not required to comply with SOX compliance requirements, assuming that other mitigating controls are in place.

31. Does the discussion of complexity within the section on scalability inappropriately limit the application of the scalability provisions in the proposed standard?

No. We believe that the discussion of complexity with the section on scalability is appropriate, just not presented in enough detail to ensure consistent applicability.

32. Are the market capitalization and revenue thresholds described in the proposed standard meaningful measures of the size of a company for purposes of planning and performing an audit of internal control?

Based on our experience to date, we have not observed external auditors make a significant distinction in their audit approach based on market capitalization and/or revenue size. In fact, in many smaller organizations, we have observed the external auditor view risk as substantially greater due to the concentration of management oversight in a smaller company. As previously stated, the proposed auditing standard needs to give more guidance on reliance and testing of company-level controls in a small company environment to ensure consistency of application by all external audit firms.

33. Is there other information the auditor should provide the audit committee that would be useful in its pre-approval process for internal control-related services?

Yes. The external auditor should be required to provide the audit committee with a summary of proposed materiality levels (stated in dollars or percentage of selected financial metric) and detailed definitions of the terms “significant”, “Material Weakness”, and “Significant Deficiency” as part of the pre-approval process for internal control-related services.

34. How can the Board structure the effective date so as to best minimize disruption to on-going audits, but make the greater flexibility in the proposed standards available as early as possible? What factors should the Board consider in making this decision?

We believe that the PCAOB should structure the effective date of the proposed auditing standard as soon as possible once the guidance is finalized. We believe that the following opportunities for improvement should be addressed prior to finalization of the proposed standard:

- **Top-Down Risk-Based Approach** - The documented concept / approach is sound; however, implementation of the standard as currently proposed will continue to require a high level of subjectivity due to a lack of definitive guidance as to the practical application of the top-down risk-based approach. This lack of definitive guidance will lead to inconsistent application by public filers and their external auditors.
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sampling” in relatively smaller, non-accelerated companies, leading to relatively higher SOX costs for such companies.

- **Scope of Testing in Multi-Location Engagements** - The proposed auditing standard is too ambiguous related to the scope of testing in multi-location engagements. We feel that a combined coverage similar to AS No. 2, taken in combination with the proposed top-down risk approach, will allow for greater flexibility and increased efficiency for the audit.
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- **Definition of the Terms “Material Weakness” and “Significant Deficiency”** - The proposed standard does not provide significantly improved clarification of the definitions as previously documented in AS No. 2. As a result, we fear that the determination of whether internal control deficiency or aggregated deficiencies represent a “Material Weakness” or “Significant Deficiency” will continue to be highly subjective and highly subject to each external auditor firm’s interpretation.

Accretive Solutions sincerely appreciates the opportunity to provide our comments to the PCAOB regarding Rulemaking Docket Matter No. 021. Please do not hesitate to contact our Company if you desire further feedback related to the proposed auditing standard. I can be reached by telephone at 214-453-7872 should you wish to discuss any of our comments in greater detail.

Respectfully Submitted,

A handwritten signature in black ink that reads 'Dirk D. Hobgood'.

Dirk D. Hobgood CPA, CIA
Senior Vice President, Accounting & Finance and Enterprise Governance Services
Accretive Solutions