FROM THE DESK OF DAVID K. GOLBAHAR

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

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 Financial Statements* (PCAOB Release No. 2006-007, December 19, 2006)

Dear Mr. Secretary,

I appreciate this occasion to comment on the proposed auditing standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements* (the "proposed standard"), for the Public Company Accounting Oversight Board (the "Board"). I would also like to extend my thanks and support to the Board for its efforts to better a standard that has helped restore confidence in our capital markets.

This letter addresses questions important to the standard. The questions follow the standard chronologically.

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

According to paragraph 16, the standard states, "A top-down approach begins at the financial statement level and company-level controls, and then works down to significant accounts and disclosures, relevant assertions, and significant processes." In my opinion, the detailed information provided in paragraphs 16 – 40 help auditors identify accounts and controls, but examples would help newer auditors understand specific accounts and situations that would result in audit efficiency. For example, footnotes directing readers to an appendix with situations would assist in understanding the standard clearly. While the standard should not be a substitute for an auditing text, it would also help lay readers understand what auditors do. This might help close the expectations gap between auditors and users of financial statements.

Furthermore, this section does not explicitly recommend auditors to look at the "tone-at-the-top," which arguably could be the most important indicator of how to direct the top-down approach in auditing. I recommend adding "tone-at-the-top" to paragraph 20.

Question B. Will the top-down approach better focus the auditor's attention on the most important controls?

After evaluating management's tone, the standard helps clarify to auditors what company-level controls to identify, but the eight bullets ("Company-level controls") under paragraph 20 are too vague for auditors to identify. Paragraph 19 through 22 provide more insight to the control environment and period-end financial reporting process, but after observing the history of enterprise risk management, I believe most auditors do not have a through understanding of a company's risk management process. It is a newer concept that many of the new hires in accounting firms are not familiar with, unless they specifically studied it in a course. Campus new hire training by the Big Four accounting firms do address it [however, it is found within most audit workbooks], and I believe it would benefit the accounting profession to address it within this auditing standard.

The top-down approach theoretically would focus the auditors to scrutinize the most important controls, but the auditors must understand risk management in order to do so.

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

Throughout the standard, "risk assessment" is used repeatedly to emphasize that auditing will occur on a risk-based approach. While auditors will now use their judgment to better audit companies, one must realize that our own risk equation [IR x DR x CR = AR] is subjective and requires that auditors maintain unbiased opinions and fairly determine the degree of risk present in an engagement. Risk assessment is appropriately incorporated with the standard, but it leaves a door open for potential abuse. As the Board and accounting professionals across the states have worked diligently to regain the public trust in our work, we must be careful not to lose it based on poor judgment.

In paragraphs 51 and 52, the standard adequately describes the correlation of risk and the necessity of evidence that needs to be collected. I would recommend a more complete list of risk factors that are associated with controls in a separate appendix, as needed.

I would like to reiterate my consensus with focusing auditors on a risk-based approach over a "check-list" compliance approach. The former efficiently helps auditors perform the necessary tests while keeping the broader purpose on the forefront of their minds. The latter might lead to an auditor getting lost in a flurry of detail, without the "big picture" in sight.

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

Walkthroughs in general are a great tool for auditors to gain an understanding of how the client's business operates internally. Paragraphs 36 through 40 help clarify to auditors what to look for and what questions to ask. However, I disagree that anyone other than the auditors should be allowed to perform a walkthrough. First, this poses as a liability risk in case an auditor is sued, and furthermore, it defeats the purpose of informing the auditor what happens while following a transaction. While I understand that an auditor may read a memo about a walkthrough, physically performing the requirements may result in a different perception of client's actions. Simply put, there is too much risk associated with a non-auditor performing the necessary work.

Question E. Will removing the requirement for an evaluation of management's process eliminate unnecessary audit work?

This third opinion in the opinion letter added more liability to auditors and additional audit work. I would argue that the opinions on the letter have helped establish trust in investors in our capital markets, but at the same time have also confused users of the financial statements. From my own understanding and brief survey results, most new auditors are unaware of how many opinions the opinion letter states.

The opinion on management's process is inherently tied to the auditor's opinion on internal control. This third opinion has created additional work, and its elimination would ease the amount of audit work and lower costs to the client. I believe the audit of internal controls allows auditors to gain a perspective on management's process. If auditors observe potential control failures, they disclose them and obviously assist the client to patch up any issues.

It is still necessary to issue an opinion on internal controls, but I know that in the future, with the trust of the public, auditors may return to the single opinion letter.

Question F. 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?

As a student in accounting for over four years, I was first surprised at the amount of opinions issued by firms, and then confused as to the wording of the opinion letter. My recommendation is to keep the letter as simple as possible to aid the users of the financial statements, notably the potential investors and stockholders. In a global environment, our wording must assist, not impair, those users. While the elimination of the third opinion may not directly result in a clearer document, it will reduce the amount of confusion, at the very least. Users may be confounded as to why there is an opinion on internal control *and* on management's assessment of those internal controls. Logically on the surface, the argument seems to be circular. One opinion on the financial statements and one on internal control facilitates the communication of the audit work.

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

Appendix B in the standard identifies the specific factors auditors should use in evaluating the competence and objectivity of others. Due to the nature of humans and their innate characteristics, scientists argue that we live in a culture that cheats. David Callahan and Steven Levitt have argued that in our society, individuals are acting in favor of themselves, and not the greater good. Therefore, it can be determined that not only individuals ("others") but also auditors have an incentive to cheat. First, there is no minimum required level to meet the competency qualification, and the objectivity of individuals is based on policies. As a future auditor, I would not feel comfortable using the works of others. I would conclude that the use of the works of others should be highly limited and possibly only used as guidance, but not as a substitute for audit work.

Please feel free to contact me regarding questions or comments regarding this comment letter. In conclusion, I would recommend that the SEC pass any guidance for companies that the Board passes for auditors simultaneously. I am proud to be a part of the forefront of accounting policy and again thank you for providing the opportunity to provide additional insight.

Respectfully submitted,

/s/ David Golbahar

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