From: Sagar, Manan [mailto:sagarm@willis.com]
Sent: Monday, February 26, 2007 3:58 PM
To: Comments
Cc: Shahmir, Farrokh
Subject: Docket 21- Proposed Auditing standard on the Audit of Internal Controls Over Financial Reporting that is integrated with an Audit of Financial Statements

DearSir

I would like to begin by expressing my gratitude for giving us thisopportunity to comment on your proposal.

Introduction of the Sarbanes-Oxley("SOX")Act has resulted insignificantimprovementofpublic confidence in financial reportinginformation. There has also been an increase in focus on corporateresponsibility and governance.

With the third year of implementation drawing to a close, it is importantthat we look back and evaluate the Industry’s concerns (particularly due to therising cost of implementation) and the learnings noted by the Industry and theIndependent auditors.

Following are some suggestions that I would like to present to you, thatin my opinion would make compliance with the provisions of theSOXActandAuditing Standard 2more value adding for the Industry, the Independentauditors, the public and the Regulators.
1.Top Down approach- Themanagement sets the tone of governanceandcontrolsacross the organisation.Managements’commitment to maintaining anappropriate toneacross the organisationcould be evaluated. The‘Entity Level Questionnaire’can be used to goodeffect to evaluate the same which could take into account the results frompreviouss years.
A‘risk-based’approach could beconsidered to determine‘Key Processes’instead of the current scoping approachbased on the account balances. A‘risk-based’approach will require themanagement to implement adequate controls for the key risks facing theorganisation.
2.The management’s /Independent auditor’s testing plan for testing Internal Controls over FinancialReporting (‘‘ICFR’’) could also be derived from the above mentioned risk-basedapproach.
A‘point scoring’system could be used to determine the risk profilefor each process with points assigned for inherent risk, process complexity,previous year testing results, major changes in controls during the year etc.Testing plans could be based on this risk assessment, wherein‘High Risk’processes could be tested more than once a year,‘Medium Risk’processes once ayear with a certain percentage of‘Low Risk’processes tested eachyear.
This would make management testing morefocused to the‘Key Risk’facing the organisation which include‘EnvironmentRisk’(Legislative Risk, Competitors Risk) and‘Operational Risk’(e.g.Financial Risk, Liquidity Risk, Control Risk).
3.The above mentionedrisk- based approach could also be applied to select the International locationswhere control testing is performed. The‘pointscoring system’mentionedabove could be used and High Risk locations could be tested yearly, Medium Risklocations once in 2 years and Low risk locations once in 3 year. We could doaway with the requirement to test locations contributing more than 5% of NetRevenue / Net Assets.
4.Thesample size used to test ICFR could alsobe based on the risk rating assigned to a particular process. Hence, a largersample could be used to test a‘High Risk’processes and a smaller sample sizefor‘Low Risk’processes. This would help make the testing effort more focusedand lead to a reduction in effort.
5.The PCAOB may considerdoing away with the requirement to quantify all open deficiencies. The exerciseis very time consuming, involves a lot of judgement and adds little value tobusiness. Instead thematic issues noted during evaluating ICFR could bedisclosed by the Management to the Independent Auditors and by the IndependentAuditors tothe Management.

The SEC / Board may also consider doing away with therequirements of classification of a weakness into a‘deficiency’,‘significantdeficiency’and‘material weakness’. Deficiencies may only be noted as‘deficiencies’and‘material weakness’, the later being reported to theSEC.
6.ThePCAOBmay also consider doing away with therequirement for the independent auditors to evaluate Management’s assessment ifthe Independent Auditor’s evaluation does not reveal any‘material weakness’inthe ICFR.

7.The PCAOB may considerrecommending to the Independent Auditors to link SOX audits to evaluate ICFR toFinancial Statement audits and useexperience gained from pastSOX and Financial Statement Audits.

I hope the above helps thePCAOB to introduceregulatory changes that will benefit the market, the independent auditors, thepublic and the industry.

Regards

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