February 26, 2007

Via e-mail to:

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

RE: PCAOB Rulemaking Docket Matter No. 021

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) Release No. 2006-007, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements and Related Other Proposals*.

Tatum LLC is the largest and fastest-growing executive services firm in the United States providing clients with, among other professional services, Sarbanes-Oxley compliance and consulting services. Tatum and The Controller Group, now a division of Tatum, like many other professional services firms, has been on the frontline with the Sarbanes-Oxley Act since it was passed in 2002. This experience has enabled us to see full well the challenges that companies have faced and are currently experiencing with initial compliance as well as ongoing monitoring.

Overall, we support the proposed changes and believe that the proposed auditing standard will continue to enhance the integrity of our capital markets and restore investor confidence. We appreciate the PCAOB's continued emphasis on a top-down, risk based approach as well as the flexibility on the auditor's use of professional judgment. In addition, we appreciate the specific guidance related to the auditor's consideration and use of the work of others and the requirement for the auditor to evaluate the size and complexity of the company when planning and performing the audit of internal control over financial reporting.

We understand the need to avoid guidance that is too strict or detailed and to allow for judgment and flexibility; however, we believe that more practical guidance is necessary in a number of areas to truly achieve the desired efficiencies. We offer the following observations for your consideration:

Overall Comments

We suggest more practical guidance and examples to demonstrate how the audit of internal control over financial reporting and an audit of financial statements should be integrated. Under the proposed standard, the auditor is encouraged to reduce the amount of testing over lower risk controls and reduce testing of controls in subsequent years. In addition, examples cited include the use of a walkthrough only or "testing controls through inquiry combined with observation or other procedures" (Paragraph 12). If less evidence is obtained by the auditor over the effectiveness of controls (even lower risk controls), auditors may be compelled to perform additional and/or excess substantive procedures to obtain comfort for the financial statement audit. We believe that true audit efficiency cannot be achieved without specific guidance on how the auditor should consider evidence obtained over the effectiveness of the internal controls over financial reporting, either through their own testing or the work of others,

when determining the amount of evidence needed for the financial statement audit. We believe that the example of simply using a walkthrough (even if supplemented by observation) in subsequent years may be challenging for auditors to implement without a corresponding increase in substantive procedures, especially if the guidance implies that only one walkthrough is necessary. This is largely due to the fact that inquiry and observation can really only establish control operation at a point in time; while in order to leverage reliance on the control for financial statement audit purposes, auditors need satisfaction that the control operated throughout the audit period.

We also suggest that the PCAOB guidance and guidance issued by the Securities and Exchange Commission (SEC) be more closely aligned with respect to specific activities such as scoping and testing. For example, in our comments to the SEC related to their proposed guidance for management, we note that there is no mention of identifying significant accounts and major classes of transactions and relating them (and controls) to relevant financial statement assertions (AS5 paragraphs 28 and 29, 32-34). This could lead to a difference in scope definition and large differences in the evaluations being performed by management and the external auditors. This difference may result in disagreements or unnecessary testing of accounts and/or locations/business units and could further lead to deficiencies, including significant deficiencies and material weaknesses, identified by external auditors rather than management. In addition, if the scope, activities and testing are not somewhat aligned, companies will lose the opportunity to capitalize on the benefits of auditor reliance and their ability to leverage the work performed in conducting management's assessment to reduce the amount of work performed by the auditor.

Responses Specific to Certain Questions

Questions 1 and 4

While the top-down approach and company level controls are described well, we have experienced reluctance on the part of many auditors to employ such approaches and believe that more practical guidance is necessary

Question 6 and 17

The performance of a walkthrough only may be sufficient to substantiate that there were no changes to controls or processes since the previous audit and to test the design and operating effectiveness of certain low risk and/or IT controls; however, as previously noted, the reduction in direct testing may create the need for the performance of additional substantive audit tests in order to satisfy financial statement audit objectives. There may be little or no value in this trade-off.

Question 11

We believe that further clarifications and examples related to materiality determination and application to determining the scope of the audit of internal control is warranted to avoid unnecessary testing and disagreements between management and the auditors. This guidance should be closely aligned with guidance provided to management by the SEC.

Question 13 and 14

Removal of the auditors report on management's assessment will yield efficiencies for some clients; however, in our experience, in many cases audit teams were performing the evaluation of management's assessment and their controls testing simultaneously, especially in those cases where there was extensive auditor reliance on the work performed by internal audit or by us, as the company's service provider. Elimination of this provision will likely lead to less influence by auditors on management's assessment process which will be welcomed relief for many companies.

Question 18

More practical guidance is needed to clarify the scope for multi-location engagements before efficiencies can be gained. Other factors that will heavily influence this relate to comments made earlier related to integration of the ICFR audit and the financial statement audit. Many auditing tools and assumptions are based on coverage and relationship between control risk and remaining risk.

Question 19 and 22

The guidance related to using the work of others may be misunderstood and requires further clarification, especially as it relates to (1) elimination of the "principal evidence provision" (2) reliance on ICFR work performed in connection with management's assessment and (3) direct assistance that the auditor requests, and thus supervises and reviews. Please see further comments below related to paragraph 13 of AS5.

Question 26

Requiring a walkthrough only for all significant processes versus major classes of transaction is not likely to reduce the number and detail of the walkthroughs performed. We have observed that under AS 2 auditors typically only walkthrough those portions or controls within the process that are substantially different and only walkthrough once those controls that are similar or identical across the major classes of transactions. Because the processes that are substantially different generally present significantly different risks, we believe that auditor will still be required to perform a walkthrough.

Question 27

While we support the use of others as direct assistance in performing walkthroughs, we acknowledge that it does create a risk that the process may not be fully understood by the auditors if they have not had the benefit of walking through it themselves. This could, in turn, impair their ability to effectively audit the process.

Questions 28 - 30

While progress has certainly been made in providing guidance on "scaling" the audit for smaller companies, we believe that more can be done in this area related to specific applicability/non-applicability of certain controls and application of the COSO guidance for smaller businesses. We still witness to a large extent a "one size fits all" approach to ICFR from a number of audit firms. In addition, we suggest more practical guidance related to the extent and formalization of Disclosure Control Procedures and certain entity-level control procedures as well as segregation of duties in smaller companies.

Comments related to specific paragraphs of Proposed AS5

Paragraph 12

In our overall comments above, we addressed concerns related to reliance on a walkthrough. In addition, clarification may be required regarding those "absences" of documentation that may be acceptable. For example, if the control requires account reconciliations to be prepared and located in a specific place (electronic or hard copy) and the reconciliation cannot be located, it would be difficult to obtain the necessary assurance from inquiry and observation, especially as it relates to the timeliness of the account reconciliation.

Paragraph 13 and 63

With respect to using the work of others, as previously noted in our response to questions 19 and 22 above, we encourage additional points of clarification regarding the work performed by others (absent specific auditor request for direct assistance, thus supervised, reviewed and approved by others such as internal audit, management or a

service provider) and work performed by others at the specific request of auditors (thus required to be supervised, reviewed, evaluated and tested by auditors). We believe clarification is necessary to avoid confusion regarding auditor influence on management's assessment procedures.

In addition, Paragraph 10 in Appendix 2 of the proposed standard states that "To use the work of others to reduce the nature, timing, or extent of the work the auditor would have otherwise performed, the auditor should –

a. Evaluate the nature of the subject matter tested by others;
b. Evaluate the competence and objectivity of the individuals who performed the work; and
c. Test some of the work performed by others to evaluate the quality and effectiveness of their work."

We believe that the auditor may find limitations in their ability to use the work of management when taking into consideration the interpretive guidance proposed by the SEC in Release Nos. 33-8762 and 34-54976. Under the SEC's proposed guidance, management's evidence to support their evaluation may come from a combination of on-going monitoring activities and direct testing of controls. In addition, management may determine that it is not necessary to maintain copies of the evidence that it evaluates and in smaller companies where management relies on the daily interaction with its controls, management may have limited documentation for their evaluation. We believe that specific guidance should be included as to how the auditor should consider the work of others when management has obtained their evidence through on-going monitoring activities and limited or no documentation is maintained as permitted by the SEC guidance.

In addition, we suggest additional guidance or suggestion related to using the work of others in the performance of roll-forward procedures.

Paragraph 24

We suggest adding that when identifying significant accounts and disclosures, the auditor also consider management's evaluation and risk assessment. We have seen situations where the auditor's determination of significant accounts and disclosures does not consider all relevant facts and circumstances, including qualitative factors considered by management.

Paragraph 31

The statement that the auditor may base his or her work on assertions that differ from those in this standard may lead to confusion. What other assertions may be applicable that would still provide for the focus on controls over financial reporting?

Paragraph 44

We believe that a closer link needs to be made with the SEC's guidance for management with respect to selecting controls to test.

Paragraph 53

Please provide additional clarification related to the comment in the "Note:" that any individual control does not necessarily have to operate without any deviation to be considered effective. If the failure could (or does) result in a misstatement or is an indicator that further failures could lead to a material misstatement it could not be considered effective – this would be determined in the evaluation of the deficiency. In addition, current audit tools for sampling

rely on inputs that include the expected number of errors. Sample sizes increase substantially if an error is encountered when not expected or if an error is expected. Perhaps this comment is better addressed relating to evaluating deficiencies to avoid the potential for increased sample sizes.

Paragraphs 78 and 79

These indicators are not consistent with SEC guidance for management. This could lead to disagreements between management and auditors. In addition, with respect to the last bullet of paragraph 79 – we suggest more practical guidance and examples related to compliance with laws and regulations that could have a material effect on the reliability of financial reporting in order to avoid the over-expansion of the audit scope.

Comments related to Appendix B

B9

This paragraph may be too broad and may be misinterpreted to imply an increase in substantive procedures which could lead to over-auditing. Low risk areas with controls evaluated as effective should have limited substantive testing.

B12

As previously noted, we suggest multi-location guidance be further linked to SEC guidance for management to avoid large scope differences between management and the auditors.

Use of Service Organizations

All of this guidance needs to be more closely linked and related to guidance for management from the SEC. Currently, the proposed standard implies that only auditors need to perform these procedures and the only reference to relying on management's procedures is in paragraph B28 as an "additional procedure." This could lead to misinterpretation and duplication of work by auditors when they could be relying on work performed in conducting management's assessment or performed by management as a monitoring control (e.g., only engaging service providers with SAS 70s, review of the annual SAS 70, etc.).

We appreciate the efforts being made by the PCAOB to ensure audit quality and efficiency. Again, we appreciate the opportunity to comment on the proposed standard and would welcome the opportunity to meet with you to clarify our comments.

Sincerely,

Kathy Schrock

Kathy Schrock
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Tatum LLC