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February 26, 2007

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, Proposed Auditing Standard: *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements and Related Other Proposals*, PCAOB Release No. 2006-07**

Dear Office of the Secretary:

Crowe Chizek and Company LLC appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") proposed auditing standard, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements and Related Other Proposals* (the "Proposed Standard"). Our comments on the Proposed Standard contemplate the U.S. Securities and Exchange Commission's ("SEC") proposed interpretation and rule, *Management's Report on Internal Control Over Financial Reporting* (the "Proposed Interpretation"). The Proposed Standard and Proposed Interpretation are clearly meant to provide a joint framework under which issuers and their auditors can work to optimize the cost effectiveness of meeting their internal control reporting obligations. Our comments on the PCAOB's proposed auditing standard, *Considering and Using the Work of Others in an Audit,* are in the section below, "Removing Barriers to Using the Work of Others."

We support the Proposed Standard, and the use of the top-down, risk-based approach. We believe this will serve to accelerate efficiencies that issuers and their auditors have been discovering and implementing as part of the learning curve associated with internal control assessment and auditing. The overall tone of the Proposed Standard is a meaningful improvement, emphasizing use of auditor's professional judgment and thoughtful consideration of relative risks. Replacing the more detail oriented language of Auditing Standard No. 2 ("AS No. 2") with a standard that establishes a tone more consistent with pre-existing auditing standards should provide auditors, working with their issuer clients, opportunities to achieve audit objectives in more cost effective ways.

While cost considerations have driven a great deal of the debate regarding audits of internal control over financial reporting ("ICFR"), we are pleased that the PCAOB and SEC are proposing an approach that preserves the significant benefits that internal control auditing bring to the financial reporting process. The major concepts, including management taking responsibility for and assessing their internal control structure, and auditors conducting an independent assessment of internal controls, are important factors resulting in improved financial reporting. The decision to include all issuers within a single framework ensures that investors in companies of all sizes can expect comparable assessments of internal controls and financial reporting quality. The Proposed Standard provides guidance to better scale the cost so that all issuers can be included in the process in a cost effective manner.

This letter provides responses to the 34 questions for which the Board requested public comment. Following that, we have provided other observations and comments to help the Board better achieve its goals for this Proposed Standard.

Directing the Auditor's Attention Towards the Most Important Controls

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

   The general top-down approach concept described is clear and understandable. We do suggest further guidance in the section "Identifying Company Level Controls." Paragraph 18 provides eight bullet points describing types of company level controls. We believe that auditors are already considering certain of these points in their ICFR audits in a cost effective manner. However, we believe that auditors may not have yet focused to the fullest extent on "controls to monitor results of operations" or "controls to monitor other controls."

   Many companies, particularly those with disaggregated operations, maintain centralized monitoring systems, such as monthly budgetary reviews and analyses. In instances where such systems are effective at detecting errors at a precision level of less than materiality, the auditor could elect to rely solely on that system to form his or her conclusions regarding the relevant control objectives. We believe that the PCAOB should include a number of illustrations of such centralized review systems, control environment controls, controls over the period end financial reporting process or other controls operating at the company level which provide comprehensive evidence of control effectiveness at the account level. That would help auditors more fully understand how to identify such controls and evaluate their effectiveness. We believe that this will be particularly important for audits of smaller companies.

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

   Yes, the proposed standard places appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud. The link to materiality could be clearer as there should not be excessive focus by the auditor on fraud that is immaterial, as this would be inefficient.

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

   The Proposed Standard places appropriate emphasis on focusing the auditor's attention on the most important controls. The PCAOB describes the overall approach articulated in the Proposed Standard as a "risk based, top down approach." We believe that the concept of "risk based" should be the more determinative concept that focuses the auditor's attention on the most important controls.

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. More examples of company level controls which can have a direct account level impact should be provided.

Emphasizing the Importance of Risk Assessment

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?

   The Proposed Standard appropriately incorporates risk assessment.

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

   The effective application of a risk-based approach allows reduced testing of selected lower risk controls due to the performance of a walkthrough. However, we believe paragraph 36 should be expanded to allow the auditor to exercise judgment relative to the nature and extent of walkthrough procedures to perform based on the auditor's assessment of risk. Certain large accounts and processes with few transactions may have control structures that are quite simple in nature. Examples might include property and equipment and long term debt at many issuers. In such cases, an auditor might not need to "follow a transaction from origination through the company's processes, including information systems, until it is reflected in the company's records." Where few transactions exist in such areas we do not believe a walkthrough is a cost effective way of obtaining an understanding of the account processing and control structure. Instead, the auditor might focus on determining the design effectiveness of individual key controls. We encourage the PCAOB to modify the approach to walkthroughs to be based on judgments about risk rather than requiring a specific walkthrough for every significant process.

   The requirement for numerous walkthroughs may not result in a risk-based or efficient audit approach. There may be many internal control assessment techniques that could be used in a variety of circumstances other than a walkthrough of one transaction from initiation to recording in the general ledger. Experienced auditors can determine the most appropriate approach, which may be a walkthrough but equally likely may be other approaches. Further, the requirement to walkthrough one transaction from initiation to recording in the general ledger is can be inefficient because of two reasons. First, an auditor may walk one transaction "part of the way" through the process during an interim audit period, and when returning for a later audit period, it may be more efficient and effective to walk a separate transaction forward from the intermediate step, as systems may have changed. The proposed standard anticipates this in paragraph 60 which says that superseded systems need not be tested for the ICFR portion of the audit. Second, an auditor may walk one transaction "part of the way" through the process until it arrives at an intermediate point, say a sales journal. The auditor may have already walked through another transaction all the way through from origination to the sales journal to the general ledger, to the financial statements. The auditor should not have to redundantly walk the second transaction through from the sales journal just because the second transaction originated in a different spot than the first transaction. This concept should be reflected in paragraph 36.

Revising the Definitions of Significant Deficiency and Material Weakness

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?

   Yes, the definition is sufficiently descriptive.

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?

   Auditors are identifying material weaknesses in the absence of an actual material misstatement. Auditors are able to effectively consider the potential error in circumstances where an actual misstatement has not been found. However, an auditor will more frequently conclude that internal control over financial reporting provides reasonable assurance that a material misstatement will not occur, when a material misstatement has not yet occurred due to the control deficiency being evaluated.

   More guidance on the assessment of potential error, rather than known error, would be helpful. Additionally, if the PCAOB has identified examples where auditors have commonly reached inappropriate conclusions as to the existence of material weaknesses in the absence of actual material misstatements, such examples should be provided as additional guidance.

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?

   The changes to the definitions will not reduce the amount of effort devoted to performing an integrated audit. The definitional changes are an important part of the PCAOB's objective of resetting the overall tone associated with internal control auditing. However, the definitions are substantively unchanged and were likely being applied similarly and appropriately in practice.

   Further, all deficiencies must still be communicated to management according to the Proposed Standard, even if not a significant deficiency. This will lead to expenditure of audit effort in conveying things that are not material weaknesses or even with reasonable possibility of being a material weakness. In the interests of efficiency, only significant deficiencies should be required to be communicated to management. The auditor can use professional judgment to determine whether to communicate lesser items.

Revising the Strong Indicators of a Material Weakness

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, such a conclusion should be allowed. Certain financial statement errors cannot be prevented based on knowledge reasonably available to issuers or their auditors. It is not uncommon for issuer specific technical issues that are interpretive in nature to be informally addressed by FASB, SEC or large accounting firms with conclusions formed regarding the appropriate treatment. Often generalized conclusions are then drawn from the specific fact patterns, yet in many cases, only specific issuers or accounting firms are aware of the interpretive guidance. This happens because standard setters do not have sufficient capacity to publicly discuss every issue that arises and the mechanisms in place to distribute such knowledge do not ensure that all such relevant interpretations with general application are made widely known or available to all.

Clarifying the Role of Materiality in the Audit

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

    Yes. Our comments on the scope of the audit of internal control are provided in other comments in this letter.

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, the reference should be removed. The reference to interim financial statements is inherently inconsistent with the concept of reporting on ICFR "as of" the end of a fiscal year. Removing the reference to interim financial statements is consistent with the overall objective of focusing the auditor on the most important matters, and removing this reference would eliminate the inconsistency of planning the audit to identify material weaknesses defined in one manner ("as of" year end) and evaluating the deficiency on another basis (at interim date). Removing the reference would not impact the scope of the audit, but it would have an appropriate impact on the evaluation of deficiencies. Should the reference be retained, guidance on assessment of interim materiality for evaluation of deficiencies should be provided as well as guidance on how a material weakness involving interim but not "as of" the end of the year is to be assessed and reported.

Removing the Requirement to Evaluate Management's Process

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

    Yes, but the amount of work eliminated will vary widely. Many auditors were not conducting significant incremental work on the evaluation of management's process solely for the purpose of reporting on management's process. This is particularly true for accelerated filers that have now completed a third year of evaluating ICFR. Many auditors were appropriately using the work of others in concluding on the effectiveness of management's conclusions. The existence of the requirement did cause the auditor to formally consider management's process and document that consideration and the related conclusions. Such consideration and documentation did create a cost which would now be removed.

    If, as suggested in the Proposed Interpretation, management reduces their assessment process and documentation such that auditors are required to obtain more evidence from their own testing, the resulting increase in auditor costs could likely exceed the cost reduction resulting from the auditor no longer having to formally evaluate management's process.

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

    The approach described in the Proposed Standard is workable. The auditor will still gain a great deal of knowledge from reviewing or using management's process. Any effective and efficient approach to assessing ICFR by both management and the auditor will still benefit by coordination of effort. The auditor should obtain a sufficient understanding of the quality of management's process through such coordination for purposes of considering the auditor's approach.

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. The previous opinion on management's assessment was confusing to users and added little value.

Permitting Consideration of Knowledge Obtained During Previous Audits

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

    Yes. The guidance strikes a proper balance in permitting consideration of prior results in setting scope, yet still requiring each year to effectively stand on its own.

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?

    Yes. This could occur with low risk significant accounts and processes, and the auditor may also consider the results of substantive testing performed on the account, as well as whether more extensive control testing was performed in prior years. The auditor may also conclude this is appropriate in instances where the issuer had company level controls operating at a level of precision that permit the auditor to draw conclusions regarding control objectives at the account level.

Refocusing the Multi-location Testing Requirements on Risk Rather than Coverage

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?

    Yes. This is an appropriate change. While auditors could often get to the same results applying either concept, we believe that the "coverage concept" in AS No. 2 injected a greater bias toward more extensive testing than the risk concept. Additionally, the risk concept more appropriately allows the auditor to use judgment to determine the testing approach.

Removing Barriers to Using the Work of Others

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?

    The proposed replacement of the existing PCAOB standards for using the work of others may lead to conclusions resulting in inappropriate reliance on others. The framework is workable, but it might imply a greater ability for the auditor to incorporate the work of others than is reasonably appropriate. Under the previous guidance, where two frameworks were presented, the auditor inherently considered the competence and objectivity of the "others" in the context of the assignment—financial statement auditing or internal control auditing. Under the new framework this consideration is less explicit, yet must still be applied. This single framework to using the work of others will make it very important for the auditor to understand the competence and objectivity of each of the "others" in relationship to the specific work (relevant activities) they conduct, and this relationship should be clarified in the Proposed Standard.

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.

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

    Probably not, and this will require additional cost and likely loss of efficiency. This requirement should be made optional based on auditor judgment. Paragraphs 3 through 6 in the proposed standard on considering and using the work of others in an audit describe the auditor's responsibility to determine whether there are activities performed by others that can be used in connection with the audit. We believe that these paragraphs will likely lead to effort expended looking for activities significantly removed from those of internal auditors and similar groups described in AU sec 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements,* which may not be useable because of issues related to competence and objectivity. It is inefficient as well to search internal audit work and the work of similar groups that may not be deemed likely to affect areas material to the financial statements. Further, if such a search is performed once and the auditor determined that the work of others was not useful, the same exercise should not be required in later years. Accordingly we see little benefit to adding these paragraphs. If the PCAOB adopts the standard on considering and using the work of others in an audit then we recommend that the consideration of what groups within the entity have the needed competence and objectivity be located before the consideration of relevant activities in order to be more efficient.

    In addition, the PCAOB should describe the extent of documentation of these search activities that it would consider appropriate.

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

    No. Removal of the provision results in the Proposed Standard being more consistent with other generally accepted auditing standards. The auditor is still responsible for accumulating the evidence necessary on which to base their conclusion.

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?

    As discussed above, the single framework makes it very important for the auditor to understand the competence and objectivity of each of the "others" in relationship to the specific work (relevant activities) they conduct. The Proposed Standard should be clarified to emphasize the importance of this relationship.

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

    The factors identified appear to be appropriate.

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

    In concept this is an appropriate factor to consider in assessing the objectivity of "others". However, the practical effect will be expansion of audit procedures to develop understanding of the compensation arrangements of internal audit personnel and other internal groups and performing the required compliance testing. As written, it appears that the auditor may be required to evaluate the compensation arrangements for each person whose work may be used, which could be a very large number of people.

Recalibrating the Walkthrough Requirements

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

    This will result in modest efficiency improvements. As mentioned previously in #6 above, we believe the Proposed Standard should provide more flexibility in determining the nature and extent of walkthrough procedures.

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?

    The Proposed Standard reaches an appropriate conclusion on use of others on walkthroughs.

Scaling the Audit for Smaller Companies

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?

 The guidance properly identifies areas in which the level of documentation, and approach, can vary significantly due to the size of the company.

 The title of the section "Scaling the Audit for Smaller Companies" is not appropriate, and may lead users to incorrectly conclude that this section only relates to smaller companies. Since the large majority of the U.S. issuers are smaller companies as defined in the guidance, it may be more appropriate to suggest that the major portion of the Proposed Standard is written for smaller companies, and that any special emphasis would be better focused as "Scaling the Audit for Large Accelerated Filers."

 The implementation of the original standard, which focused on larger companies first, has caused a point of view that the standard on audit of internal control is primarily written for larger companies and that an auditor must consider "smaller companies" in a different way. However, the Proposed Standard achieves the scalability objective. Accordingly, the "special guidance" should be for the relatively fewer audits of larger companies.

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

 See our recommendation above relative to the scalability section of the Proposed Standard. Other factors that may need to be considered for smaller, less complex companies may include sufficiency of management financial reporting expertise, qualifications of audit committee members and the quality of management's testing and documentation.

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?

 See discussions above.

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

 The items discussed are worthy of consideration. However, we are concerned about one area of guidance, "*Evaluating Financial Reporting Competencies*" which states "…the auditor should take into account both the competence necessary to address the types of transactions and activities the company enters into and the combined competence of company personnel and other parties that assist with functions related to financial reporting." This attribute, in a list of how an audit of smaller, less-complex companies differs, can be read to suggest there can be a lower threshold for performance for smaller companies in connection with their financial reporting.

Most would agree that an effective system of ICFR means that an issuer can produce financial statements that reflect the financial position, results of operations and cash flows of the issuer in accordance with generally accepted accounting principles, without relying on the auditor to detect and suggest corrections for errors. This is an objective overarching statement regarding financial reporting competencies. Within this is the concept that companies have varying degrees of complexity, and that a company need not have the competencies necessary to deal with accounting standards and reporting issues which are not relevant to the company. However, they do need to have the necessary skills to successfully manage with the standards and reporting issues which are relevant.

The inclusion of this topic in the list of attributes could cause some issuers to incorrectly assume a lower level of performance than anticipated by the Sarbanes-Oxley Act, SEC rules, or the Proposed Standard. If this topic is maintained in the listing of considerations we recommend a more detailed discussion of anticipated minimum threshold performance.

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?

When applying a single, scalable standard across all issuers, arbitrary classifications of size do not add much value. The considerations described should be thought through in every assessment of ICFR. The considerations listed become more relevant as companies become smaller, but they also become more relevant as companies become more centralized, have fewer product lines, engage in activities with more straight-forward accounting, etc. A qualitative description centering on the general concepts of smaller and less complex would be a more effective classification system.

If quantitative thresholds are considered necessary to provide relevant guidance, we believe that the guidance included in the proposed standards is incomplete. The Advisory Committee on Smaller Public Companies to the United States Securities and Exchange Commission (the "Committee") recognized this point by including certain revenue considerations in their proposed definitions which are the referenced source of the size criteria in the Proposed Standard. Comment letters provided in response to the Committee's draft report commentators, including ours, indicated that a size based criteria would be incomplete without an asset consideration as well as a revenue consideration. However, our primary point is that size should be described qualitatively rather than quantitatively, allowing all issuers to benefit from the thinking inherent in the considerations.

Audit Committee Pre-approval of Services Related to Internal control

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?

No.

Effective Date

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?

An answer to this question depends on the requirements included in the final standard. It may be appropriate for the effective date to be for audits as of December 31, 2008 as it is likely the standards will not be finalized soon enough for auditors and issuers to be able to fully implement changes resulting from the Proposed Standard and the Proposed Interpretation for earlier periods. However, auditors should be encouraged to utilize the greater flexibility in the proposed standards as the auditor deems appropriate for each issuer circumstance. Hence, allowing early adoption of all or parts of the final standard can achieve desired efficiencies.

Other Comments

Directive Nature of Proposed Standard:

While the Proposed Standard encourages use of judgment and scalability in the audit, it is still prescriptive and detailed. The PCAOB has previously established rules indicating a "must" direction is always required, and the word "should" indicates a responsibility that is presumptively mandatory, such that auditors will comply with requirements of these types specified in the Board's standards. There are hundreds of such specific matters that the auditor will need to perform in the Proposed Standard, which will make it more difficult to properly scale the ICFR audit for smaller companies. Some of the requirements may also lead to unneeded documentation when considered in light of the requirements of Auditing Standard No. 3, Audit Documentation. Some directives might be replaced by language to indicate the guidance is illustrative, rather than mandatory. We recommend that each of the presumptively mandatory requirements provided in the Proposed Standard be reviewed to ensure it is appropriate and needed.

Paragraph 8 – The Proposed Standard addresses several ways for the auditor to better focus on the most important controls. We are concerned with the language in this paragraph that indicates "it is not necessary to test controls that, even if deficient, would not present a reasonable possibility of material misstatement to the financial statements." This statement may cause the auditor to consider the potential impact of each individual control at the risk of not identifying a material weakness based on the evaluation of aggregate controls in one area.

Paragraph 12 – We recommend adding to the end of the attribute "Evaluating the risk of management override and mitigating factors" guidance for when there is a lack of effective audit committee oversight.

Paragraph 15 – We recommended above that the references to interim financial statements be removed from the definitions of significant deficiency and material weakness. If the references are retained, paragraph 15 which now states "…the auditor must consider the possibility of misstatement to both annual and interim financial statements" should be clarified. The definitions of significant deficiency and material weakness use "or" rather than "and". Does this evaluation require that both periods must be misstated to result in a significant deficiency or material weakness, or does it require that 'either annual or interim' be misstated?

Paragraphs 17-22 – These paragraphs indicate that the auditor should evaluate company level controls that are important; however, it appears that an evaluation is only required for the control environment and the period end financial reporting process. The PCAOB should clarify that the elements of company level controls described in the other 6 bullets in paragraph 18 may not need to be evaluated if the auditor does not consider them to be important.

There may be valid alternatives which may be more efficient, and just as effective to the "must test company-level controls" first approach based on specific facts and circumstances. The PCAOB should recognize this by providing a presumption that company level controls would be tested first, but allow alternatives when deemed more efficient. Thus, paragraph 17 should start with "The auditor should usually", instead of "The auditor must". Examples of when it may not be efficient to test company-level controls first would be simultaneous testing of company-level controls and other audit tests when only a short time period is available for the audit; delaying testing of company-level controls until later in the audit when the auditor knows the company-level controls are being revised and will be superseded (such as changes in information technology controls); or waiting to use the work of others not yet completed for company-level controls when it is reasonable to perform other audit tests based on prior knowledge of company-level controls.

Paragraph 25 – The PCAOB should clarify the meaning of "significant accounts should be the same for both audits." How is a significant account defined for audits of financial statements? Is an account significant for a financial statement audit if substantive procedures are performed? Is an account significant for a financial statement audit if the auditor performs simple analytical procedures on account balances considered to be low risk? PCAOB should allow differences, especially in audits of smaller companies, to consider facts and circumstances.

Paragraph 26 – This paragraph describes risk factors that the auditor should consider in determining whether an account is significant. The PCAOB should clarify what is meant by needing to consider "changes from the prior period in account characteristics." It appears as though the other bullets already address the nature of the account, so this bullet seems to imply that an account might be considered significant just because the characteristics of the account change.

Paragraph 36 – This paragraph states that a walkthrough should be performed for each significant process. The PCAOB should clarify whether walkthroughs are required for entity level controls (except for period end financial reporting practices for which paragraph 23 specifically requires a walkthrough). We do not believe walkthroughs should always be required and the standard should state that.

Paragraph 43 – We believe that a statement after the 2nd sentence of this paragraph should be added to indicate "In such circumstances, testing of other controls should be reduced and/or eliminated." We believe this will further emphasize the auditor's ability to rely on appropriate company level controls.

Paragraph 46 – The word "alter" in the last sentence should be "consider". This reflects that often the procedures to be performed in the financial statement audit may not yet have been prepared, pending results of controls testing, so there would be nothing to "alter" yet.

Paragraph 51 – The first sentence of this paragraph indicates that "[F]or each control selected for testing, the auditor should assess the risk that the control might not be effective and, if not effective, the risk that a material weakness would result." This requirement could generate a level of documentation that may not necessarily add to audit effectiveness. We recommend that the PCAOB consider providing additional guidance as to what and how much documentation is required in documenting the risk that a control might not be effective on a control by control basis.

Paragraph 53 – The note to this paragraph indicates that a control does not have to operate without deviation to be considered effective. We believe additional guidance should be provided regarding the level at which the auditor might reach such a conclusion. This is particularly important since audit testing is generally done on a sampling basis, and often some exceptions are noted in the detail items that comprise the sample, even if the overall result is an acceptably low error rate. As an example, a sample of 100 items might have 1 error, and the overall error rate is deemed acceptable in terms of acceptable control risk – does paragraph 53 however view the 1 individual error as a deviation from the company's established controls that requires further auditor consideration and documentation?

Paragraph 73 – The Proposed Standard provides that among the risk factors that affect the likelihood that a deficiency will result in a misstatement of an account balance or disclosure not being prevented or detected in a timely basis include "The possible future consequences of the deficiency." Although the audit is "as of" a period end date, this will require evaluation of future unknown events. While such predictions would certainly be useful, they may not be relevant to the impact as of the current date of assessment, and may require sophistication in forecasting that may not be achievable. This requires an auditor to look to the future for a possibility of a material weakness "as of" today for something that may not be a material weakness for the current financial statements.

Paragraph 74 – The last factor here also requires development of what"is expected in future years". This has the same concerns as noted for paragraph 73.

Paragraph 77 –This discussion should also include materiality consideration and the effect of disclosure deficiencies.

Paragraph 79 – The auditor is directed to treat "Restatement of previously issued financial statements to reflect the correction of a misstatement." as a strong indicator that a material weakness in internal control over financial reporting exists. However, restatement of previously reported financial information should not necessarily lead to a conclusion that there is a material weakness in ICFR as of a current date. A company may have improved systems as of the assessment date that detects an error, or perhaps a previous weakness was remediated during the year such that at the "as of" date, no material weakness exists, even if a restatement was required during the year. Additionally, we believe that it is important to clearly define what management should have known in making this determination. Certain restatements take place because of the evolution of thinking regarding the application of accounting standards.

Paragraph 89 – The second sentence should be clarified that it refers to the communication with management, not informing the audit committee as mentioned at end of previous sentence. Recommend "When making this communication to management…"

Paragraph 89 – The use of "all deficiencies" should be clarified, as noted above in discussion of paragraph 53.

Paragraph 96 – For consistency, we recommend addition of "over financial reporting" in third use in second to last sentence in scope paragraph: "…testing and evaluating the design and operating effectiveness on internal control over financial reporting…"

Paragraph 107 – This paragraph requires the auditor to include an explanatory paragraph describing a subsequent event and its effects that have a material effect on ICFR, or directing the reader to management's disclosure of such. This should be restricted to those matters that have a "…material adverse effect…" The PCAOB has existing standards for reporting on whether a previously reported material weakness continues to exist, and the explanatory paragraph required in this paragraph 107 should not substitute for such reporting.

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We hope that our comments and observations will assist the Board in finalizing a new standard for audits of internal control over financial reporting that is integrated with an audit of financial statements. Crowe Chizek and Company LLC fully supports the Board's efforts to improve audit quality with the objective of furthering the public interest.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff. If you have any questions or would like to discuss these issues, please contact Wes Williams at (574) 236-8626, James Brown at (574) 236-8676, or Richard Ueltschy at (502) 420-4446.

Cordially,

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC