February 26, 2007

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 021

The American Gas Association (AGA) is pleased to submit its comments concerning the Public Company Accounting Oversight Board proposed auditing standard ***An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements.*** The American Gas Association, founded in 1918, represents 200 local energy utility companies that deliver natural gas to more than 64 million homes, businesses and industries throughout the United States. A total of 69 million residential, commercial and industrial customers receive natural gas in the US, and AGA's members' deliver 92 percent of all natural gas provided by the nation's natural gas utilities. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international natural gas companies and industry associates. Natural gas meets almost one-fourth of the United States' energy needs.

We appreciate the opportunity for public comment on the proposed auditing standard. We also welcome the board's approach to reducing the complexity of the existing Auditing Standard No.2. And we generally feel that these changes will aid in its scalability and efficient implementation. For the most part we feel that the new standard sets out what the board intended to achieve; therefore, we have focused our comments on those areas where we recommend modifications to improve its overall effectiveness.

Eliminating Unnecessary Procedures

The proposed standard goes a long way towards eliminating unnecessary procedures by eliminating the requirement to evaluate management's process. However, the proposed auditing standard could better address audit integration. This, we believe, is integral to creating an efficient and lasting process. Further, we do not feel audit hours will be significantly reduced unless the standard better defines the requirement.

When reading the language in Appendix B to the proposed standard, it conveys two separate and distinct audits. It is understood that the auditor must opine on two subjects: the financial statement and internal control over financial reporting. However, the wording in Appendix B suggests bifurcation. Specifically, the separate referencing of controls testing adds to the implication that the audits be separate in practice. For the purpose of clarifying that the objectives should be achieved simultaneously, we

recommend deleting paragraphs B3 to B7. The requirements of assessing Internal Control Over Financial Reporting are outlined in the body of the standard; so, the reiteration here is unnecessary. And adopting this edit would still convey the necessity of cross-referencing control tests and substantive tests in assessing risk and testing requirements.

In the main body of the standard under Identifying Significant Accounts, it also suggests bifurcation. If scope on the financial statements is the same as the audit of the financial statements, then the paragraphs that comprise this section are not necessary. We suggest eliminating all of the paragraphs in this section with the exception of paragraph 25, which simply states the significant accounts should be the same in both audits. If it is necessary to codify how an auditor should select significant accounts, then that would seem more relevant to a standard concerning an audit of financial statements since the audit of internal control over financial reporting inherits that scope.

Revising the Strong Indicators of a Material Weakness

The proposed standard still contains too much granularity when defining significant deficiency and material weakness. Specifically, the de facto significant deficiencies defined in paragraph 78 as well as the strong indicators of a material weakness section limit the judgment of an auditor and management. All of the factors stated are common knowledge to accounting professionals; thus, the necessity of explicitly stating them does not add any particular value. Instead of enhancing deficiency evaluation, these are used to circumvent a thoughtful, reasoned process for evaluating deficiencies. In our opinion, simply stating the definition of a significant deficiency and material weakness is enough guidance. This would better meet the intention of a thoughtful process in evaluating deficiencies.

If the board feels that it is necessary to keep this language to facilitate a reasoned evaluation process, we would still strongly recommend eliminating the factor concerning the company's regulatory compliance function. The main point of contention here is that this can be construed to expand the audit outside the scope of internal control over financial reporting. In order to assess whether the regulatory compliance function at a company was ineffective, an auditor would need to evaluate the process in place to comply with the applicable regulation. Given the confusion that this can lead to, we feel that eliminating this paragraph would more clearly define the scope of the audit.

Finally, the focus on eliminating unnecessary procedures is laudable, and the proposals put forth go a long way towards achieving that objective. And we feel that clarifying the language in the aforementioned sections would aid in achieving that objective. These changes would assist by underscoring the requirement for an efficient audit process and by focusing the evaluation process on the reasoned judgment of the auditor.

Revising the Benchmarking Guidance

The proposed standard also introduces a benchmarking strategy for testing automated application controls which can be used as an area of potential audit efficiency for those companies that have made investments in effective Information Technology ("IT") general controls. IT software is often updated either by vendor provided updates or company developed enhancements that would be covered under the company's change control procedures. However, it may be noteworthy that without some additional guidance and depending on how audit firms implement this issue, the following line in paragraph B31 in the proposed standard may actually impede the practical implementation of the benchmarking strategy:

> "if the auditor verifies that the automated application control has not changed since the auditor established a baseline (i.e., last tested the application control), the auditor may conclude that the automated application control continues to be effective without repeating the prior year's specific tests of the operation of the automated application control."

In this particular circumstance, an audit firm could interpret this guidance to mean that there should be an enhanced and more rigorous testing of change controls and change documentation as it relates to software updates where such software is used to implement the mechanized controls. We believe that the auditor should be able to rely on several factors to avoid significant amounts of detail testing such as, and not limited to a review of the essential change controls used for such updates and software changes and on some selective testing. The ultimate guidance might provide an allowance for such steps in order to insure that an unintended consequence is not additional detail auditing and testing of every software change that might be processed in a given period, but rather a broader reliance on the company's IT general and its change controls instead of a more detail review and testing of all IT change actions. The use of a broader reliance on techniques such as selected testing of IT general controls would allow the benchmarking strategy to become a practical approach to improve audit efficiency. We believe such an indication in this section of the proposal would be useful guidance for the auditor.

<u>Conclusion</u>

We are supportive of the PCAOB's efforts and appreciate the opportunity to comment on the proposed standard. If you would like to discuss any of our comments, we would be pleased to discuss them further at your convenience. If any of our comments need further explanation, please contact me or Joseph L. Martin, American Gas Association at 202-824-7000.

Sincerely,

American Gas Association

[s] *James W. Eldredge*

James W. Eldredge
Chairman, American Gas Association Accounting Advisory Council.