



October 28, 2003

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

**Re: PCAOB Rulemaking Docket Matter No. 008– An Audit of Internal Control Over Financial Reporting Performed In Conjunction With An Audit of Financial Statements  
(PCAOB Release No. 2003-017)**

Dear Mr. Secretary:

I am pleased to submit this comment letter to the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) regarding the above-referenced PCAOB Rulemaking Docket matter. Overall, Marriott Internal Audit supports the proposed auditing standard. Our views and significant comments on this proposed audit standard are set out in this letter.

***Perspective***

In my role with internal audit, I have been actively involved in Marriott’s internal control evaluation since joining the Company in 2001 and have worked closely with management and our external auditors to develop and implement an approach to achieve compliance with the requirements of Sarbanes-Oxley, since July 2002.

***Expectations***

I expected the Board to propose an audit standard which would clearly define responsibilities of management and the external auditor and provide a framework against which internal and external auditor’s could evaluate approaches and chart as direct a course as possible and appropriate toward compliance.

***Reaction/Suggestion/[responses to specified questions posed by the PCAOB in the preface to the proposed audit standard]***

I was generally pleased to see that the proposed standard supports the approach Marriott has employed since early 2003.

That said, I believe that the guidance for management’s documentation of internal controls could be improved, the standards should more clearly define how management and external audit efforts can be coordinated, and the guidance for reporting on management’s assessment of internal control should be clarified.

***Management’s documentation of internal controls***

Per recent discussions with my counterparts at several large public companies headquartered in the Washington and Baltimore areas, one noted that, “at least with respect to management’s documentation of internal controls, it appears that the Board has responded to a plea to issue principles-based standards” (a plea “echo’d” by many of the participant’s in the recent PCAOB roundtables). Another noted that, “the standard supports my adherence to the COSO framework and

focus on key controls. I won't need to document the entire control process to the extent I don't plan to test the controls."

I interpret the standard to be far from principles-based and although I understand it to require management to base its assessment on a recognized control framework, the reference to AU 319 tells me that the framework is secondary to the requirement that the auditor and hence management must document controls in place to achieve financial statement assertions related to all significant accounts. The requirement of the external auditor to perform walkthroughs (paragraph 79) indicates to me, that management's documentation must support this walkthrough in order to be deemed complete by the external auditor.

Room for interpretation is room for misinterpretation. I won't presume my interpretation to be more correct than any of my peers in internal audit, but I do request that the Board recognize that there are different interpretations of the requirements of the standard with respect to documentation, and to consider revising the proposed standard to clarify the required documentation of internal controls. To restore the faith and trust of the shareholders of public companies and employees of those companies, it will not do to broaden the expectation gap or put management of public companies at odds with external auditors (who are instructed in the standard to conclude whether inadequate documentation of controls by management represents a deficiency, significant deficiency, material weakness or scope limitation) over the sufficiency of documentation supporting their assessment.

I believe the only way to ensure that internal controls are consistently documented from one entity to the next, and thereby ensure that each is measured against a similar standard will be to provide illustrative guidance in the standard regarding the use of an internal control framework and specificity with regard to components and organization of the documentation (combining and expanding upon the documentation requirements for management and the external auditor in paragraphs 43 and 145 in the standard, to include example evaluation tools, and examples of complete documentation for various financial reporting subprocesses).

#### *Coordination of internal and external audit efforts*

As corporations rolled-up their sleeves to address the requirement for an audit of internal control over financial reporting with an internal and external assessment component, it was logical for management to coordinate the work with the external auditor to ensure that there was agreement with respect to the scope and approach and eliminate redundancy in the process. The proposed standard does not provide a clear roadmap and timeline for management and the external auditors to follow and appears to drive a wedge between the two by going beyond previous independence requirements. In my opinion, the resulting inefficiencies will result in excessive costs, which is counter to the premise that this requirement will protect the shareholder, as they ultimately bear this burden.

I recommend that the Board enhance the proposed standard to include illustrative guidance regarding acceptable approaches which maximize efficiency of the process while producing reliable evidence to support conclusions (e.g. outline of recommended steps in management's assessment and the external audit of internal control over financial reporting, a suggested/permissible timeline for each of the recommended steps, and acceptable alternative strategies for each project step (i.e. who can perform, criteria for the use of the work of others, nature and extent of testing, suggested touchpoints for the coordination of the internal and external assessments)). This guidance, in my opinion should refrain from indicating when external auditors should not use or limit the use of work of others, and instead describe criteria which must be met to enable external auditors to rely on the work of others including internal audit and management. The guidance should also describe when and how management and external auditors can and should collaborate to identify the appropriate controls to test, and coordinate

sample selection for testing and execution of tests of controls, to eliminate redundancy. I believe existing standards and practices by many of the public accounting firms support integration of the plan and execution of an audit of internal control, while maintaining a strong basis for reliable independent reporting.

[Response to PCAOB questions: #10 – In my opinion, the requirement for an external auditor to perform walkthroughs is inappropriate. The standard should define the nature and extent of walkthroughs required and documentation prepared to provide an adequate basis for an opinion regarding the design of controls. The standard should provide guidance to the auditor regarding the nature and extent of procedures to validate the work performed by others, but not preclude it. #12 – As indicated above, I believe the auditor should be permitted to use the work of management and others in the performance of their review. Changing the focus of the standard in this regard to guidance for appropriate validation procedures will enable the management, internal and external auditors to plan the most efficient and effective use of resources to accomplish the same objective. #13 – I believe that taking action as recommended in my response to #12, above will eliminate the need for any guidance regarding the any specific categories of controls which the external auditor need vary his/her approach. Paragraphs 104, 105 and 106 clearly describe the categories of controls that external auditors have historically used to plan a mix of procedures (tests of controls vs. substantive) for their external audit. I expect external auditors to continue to do more substantive work on financial statement captions whose underlying controls fit into the categories described in paragraph 104 and 105, but the level of work performed by others should have no bearing on the auditors ability to conclude on the effectiveness of controls in these categories, as long as the evidence is sufficient. #16 – The external audit should obtain and retain the principal evidence to support his/her opinion in the audit documentation, but the quality and sufficiency of this evidence should be the focus of the standard. While the external auditor must consider the source of evidence and the qualifications and independence of the persons who perform testing to conclude on the reliability of audit evidence, the auditor should be permitted to perform that evaluation and use the work of others, where appropriate.]

#### *Reporting on management's assessment of internal control*

I believe that standard should include an illustrative report of management's assertions in addition to those included for the external audit opinion, and that the illustrative reports should clearly describe the criteria applied in a manner that the users of financial statements can understand. As an auditor who has used COSO since it was first published, I consider myself reasonably well-versed in the framework, yet I do not think the definition of criteria in the COSO framework is clear (glossary has one definition under criteria, another under reliability of financial reporting, and the evaluation criteria under each of the components indicates that it is not all-inclusive, serves as a starting point, or otherwise requires further evaluation and judgment of the auditor/evaluator), and therefore I believe it would be inappropriate to simply state in the report that management's assessment was based on criteria established in COSO.

#### *Other considerations and concerns*

It is no secret that there were horrendous practices in food and drug preparation in the United States during the 19<sup>th</sup> century, and "The Jungle" was not the first call to action, but early last century Theodore Roosevelt heard the call and responded with the Food and Drug Act of 1906. It is likewise well known that Enron and WorldCom do not represent the first or only examples of the failure of corporate governance processes of United States corporations. Due to the increasing numbers of Americans investing in marketable securities, this crisis has the potential to harm as many Americans as the poisoning of our food sources a hundred years ago, and congress has appropriately responded through the Sarbanes-Oxley act. Now only time will tell if the PCAOB will benefit our citizens and endure through challenge and change, as has the FDA.

I think it is safe to say that most if not all professional auditors and probably most executives would rather work with the PCAOB to successfully bear this burden now and create a process that will last, than wait for more and potentially more devastating corporate failures and for the Upton Sinclair of the 21<sup>st</sup> century to call us out for not having done enough.

I don't intend for my reference to Sinclair to suggest that I would support the socialization of auditing or corporate management for that matter, just the opposite. I believe that we did better to leave the meat packing to meat packers and we should do the same for audit and management, but I draw the parallel to highlight my concern that if we don't monitor the unintended consequences of the change brought on as a result of Sarbanes-Oxley, the audit profession could be so negatively impacted that it will not continue to function effectively for all public companies.

Evidence that the significance of increased costs of being a public company is a reality for many companies is more and more often born out in the media. Executives have referred to the effects of Sarbanes-Oxley as chemotherapy on the more positive (painful, but in the end we will be better off), as a reason to take companies private, and as sand being poured into the gears of the economy. I hope that the U.S. Securities and Exchange Commission (SEC) and the PCAOB take an increasingly active role in molding public opinion; responding to criticism, as appropriate, and addressing negative unintended consequences as they arise.

Improving corporate governance should not be so costly or result in such an elevated risk profile that our professional accounting firms are forced to decline future audit work and/or potentially force public companies to go private to avoid the cost of the regulations.

There are so many moving parts in this equation that a final solution may not be possible without the benefit of experience, and I applaud the Board for the efforts to date related to the adoption and development of audit standards for the audit of internal control over financial reporting. In a different era, the approval of the proposed standard would simply be an exercise in tweaking the mechanics of an attestation engagement to make a handful of audit professionals happy and arm 10's of thousands of auditors with guidance to plan their reviews. Today it is so much more. This standard is a critical element of the PCAOB's arsenal to achieve its mission 'to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports'. At the same time, the unintended consequences of the implementation of this standard as a basis for companies to comply with the SEC rules may in fact be at odds with the mission of the SEC, 'to protect investors and maintain the integrity of the securities markets'. It would be advisable at this point to take a step back and evaluate the plans to achieve each mission and determine possibly through additional studies, if the existing plans should be reworked.

I appreciate your consideration of my comments on the proposed standard and other considerations.

Sincerely,

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