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November 21, 2003

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

Via E-Mail: comments@pcaobus.org

**Re: Invitation to Comment on PCAOB Rulemaking Docket Matter No. 008**

Ladies and Gentlemen:

Texas Instruments Incorporated (TI) welcomes the opportunity to comment on the proposed auditing standard, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. It is evident that the PCAOB and its staff have carefully considered the current auditing standards on internal control and have sought to improve these standards. While we concur with the majority of guidance in the proposed standard, I offer comments on behalf of TI for your consideration in the areas of reliance on the work of others and external auditor evaluation of the audit committee.

**Reliance on the work of others**

Having spent over 10 years as an auditor at a Big Four firm, I encountered a wide variety of control environments at my clients and I understand the need for an appropriate balance between the work of the external auditor and the internal auditor. Based on my experience, I believe that the provisions of the proposed standard concerning the reliance of the external auditor on the work of others are overly restrictive and will result in unnecessary duplication of effort.

I agree that the external auditor should consider the factors outlined in paragraph 103 of the proposed standard to determine the level of reliance upon the work of management and others. However, I am concerned about the requirement in paragraph 104 that precludes the external auditor from relying upon the work of the internal auditor for the testing of information technology general controls and walkthroughs.

While I acknowledge that the quality of internal audit departments varies by company, the external auditor should be able to determine the extent of reliance upon the work of internal audit similar to the process defined in AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*. If the internal audit department is staffed with

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audit professionals experienced with testing controls, it would be appropriate for the external auditor to utilize the work of these professionals to the greatest possible extent.

At TI, we have an experienced group of information system internal auditors who have extensive experience with the company's customized systems and their related controls. This group has historically coordinated its workplan for information system control testing with the external auditor to ensure that the scope of testing is appropriate for external audit reliance. The external auditors perform a detailed review of the internal audit workpapers and then reperform certain tests as required by current auditing standards. The proposed standard states that the external auditor should perform the control testing of "certain types of information technology controls."

It is my understanding that external auditing firms have interpreted this statement to indicate that the external auditor should perform the testing of general computer controls. Since many general computer controls are routine and are not subject to interpretation (security, passwords, hardware and software development, business interruption, etc.), it seems as though general computer controls could be tested by the internal auditor in the same manner as the other routine controls mentioned in the proposed standard.

The significant financial statement frauds in recent history have generally occurred at the management level and I believe that the requirement for the external auditor to test general computer controls would not have prevented such frauds. As noted in the proposed standard, I agree that it is appropriate for the external auditor to focus on high risk areas. At some companies, general controls might be considered a high risk area that deserves focused attention by the external auditor; however, the risk assessment related to these controls should be the decision of the external auditor. To require testing of general computer controls by the external auditor would not recognize the routine nature of many of these controls and the low risk surrounding general controls at companies like TI.

I also believe that the external auditor should be able to rely upon walkthroughs performed by the internal auditor. Again, a risk assessment should form the basis of the external auditor's determination as to which walkthroughs could be performed by the internal auditor. I agree with the PCAOB that important evidence about internal control can be obtained through a properly performed walkthrough. I do not advocate that walkthroughs should be performed by company personnel who do not have experience in auditing and inquiry procedures, but do believe that the internal auditor is certainly qualified to perform such procedures, particularly in low risk areas. The external auditor would gain sufficient evidence of control functioning through a combination of the control procedures he or she performs in addition to walkthroughs, a review of the internal auditor's walkthrough workpapers, and reperformance and follow up inquiry.

I urge the PCAOB to reconsider the use of qualified internal audit departments for testing of general computer controls and walkthroughs. At TI, we take the requirements of Sarbanes-Oxley and the PCAOB very seriously and have spent a significant effort in both cost and manpower to comply with these requirements. By restricting the use of internal audit, there will

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significant overlap of work and duplication of effort by the internal and external auditor. This is disruptive to the operation of our business and does not ultimately benefit our shareholders.

**External audit evaluation of the audit committee**

It is not appropriate for the external auditor to evaluate the effectiveness of the audit committee. The Sarbanes-Oxley Act gave the audit committee the authority to engage and compensate the independent auditor. To require formal evaluation of the audit committee by the external auditor would reintroduce the conflict of interest that Sarbanes-Oxley sought to eliminate.

At TI, we strongly believe that the audit committee is critical to setting a proper “tone at the top.” Our audit committee has procedures for performing an ongoing evaluation of our external auditor and maintains an open dialogue with the external auditor concerning TI’s control environment and significant accounting policies and practices. Our external auditor also provides feedback to the audit committee as appropriate concerning audit committee best practices. We believe that this relationship best serves the interests of both parties and fosters open communication.

The external auditor should continue to consider audit committee functioning and oversight as part of its risk assessment process and evaluation of the control environment, but to require a formal report would be a conflict of interest. If the PCAOB deems it necessary to have a formal evaluation of the audit committee, it would be more appropriate to have this evaluation performed on a periodic basis by a party other than the external auditor.

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We appreciate the opportunity to comment on the Proposed Standard and would be pleased to discuss our comments with you in further detail.

Sincerely,



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