

November 21, 2003

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

**Subject: PCAOB Rulemaking Docket No. 008
Proposed Auditing Standard – An Audit of Internal Control Over Financial Reporting**

Members and Staff of the Public Company Accounting Oversight Board:

Thank you for the opportunity to comment on the proposed auditing standard on an audit of internal control over financial reporting performed in conjunction with an audit of financial statements. Overall we support the proposed standard. However, there are certain areas of the proposal we do not agree with and are submitting the following comments.

Limitation on the Use of the Work of Management and Others (Questions 10, 12-16)

There is little doubt that the costs of being a public company have increased significantly as a result of the frauds committed by a few companies and the resulting requirements imposed by the Sarbanes-Oxley Act of 2002 (the Act). We support the objectives of the Act and believe swift implementation of its various provisions is needed. We understand that the public's trust of management and independent auditors has been impaired, and such trust needs to be restored as quickly as possible. However, we believe the proposed limitation on the use of the work of management and internal audit is an unnecessary restriction that only serves to increase the costs of the audit. There will always be a substantial degree of judgment involved in preparing financial statements, assessing internal controls, and auditing such financial statements and internal controls. There is no way to avoid it other than to require 100% documentation and verification of all areas, which of course is unrealistic. We don't believe that selecting certain categories of controls that the independent auditor cannot use the work of others or to require specific walkthrough procedures for every process eliminates the need for judgment enough to justify the additional costs that would result.

Furthermore, Statement of Auditing Standards No. 65 (SAS 65) provides a basis for the auditor to determine when it is appropriate to rely on the work of internal audit and its concepts could also be applied in all areas of an audit of internal controls over financial reporting. SAS 65 has been in used in practice since 1991 and utilizes a risk-based approach to determine where it may be appropriate to rely on the work of internal audit and provides adequate guidance in this regard. While we can appreciate the hesitancy to allow for the utilization of the work of others in certain categories of controls, ultimately

the evaluation of the work rests with the independent auditor. At a minimum, it seems appropriate for the independent auditor to rely on the work of an internal audit group in circumstances identified by the concepts of SAS 65. Allowing for use of the work of others in all areas of the internal control audit is a matter of efficiency and does not compromise the auditor attestation.

Adequacy of Management's Documentation (Question 7)

I understand and agree that the independent auditor needs to evaluate the adequacy of management's documentation in order to determine if management's assessment of internal controls over financial reporting was adequate. Many public companies are struggling with how much documentation is appropriate without becoming overly procedural and detailed. While we believe the standard provides appropriate guidance as to the consequences of inadequate documentation, we do not believe that the proposed standard adequately defines what is adequate and what is not. The consequences of inadequate documentation are so severe that the standard needs to provide very specific guidance to the auditor, and management, regarding the criteria to evaluate management's documentation. As written, the standard is very general and leaves much to the discretion of the independent auditors. Both management and auditors would greatly benefit from much more specific requirements regarding the sufficiency of documentation.

Again, we appreciate the opportunity to comment on the proposed standard. Thank you for considering our views. We would be glad to discuss these comments with you at your convenience.

Respectfully submitted,

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