Statement by
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Statement on Proposed Auditing Standard
An Audit of Internal Control Over Financial Reporting
October 7, 2003

I am pleased to support the Proposal before us today -- all 99 pages of it! Lest some of the important elements of this Proposal be lost in the sheer volume of the document, let me highlight a few:

First, the Proposal requires that an audit of internal control over financial reporting be *integrated* with the audit of the financial statement. In addition, it directs the auditor to not only evaluate the process that management used to reach its conclusions, but the underlying internal control system as well. To do otherwise would significantly limit the weight, import, and reliability of the auditor’s findings with respect to internal control effectiveness. Now is not the time to provide investors with anything that is less than reliable.

Second, it provides new, and I think very straightforward and common-sense definitions of certain foundational terms: deficiency, significant deficiency and material weakness. We heard the participants to our July roundtable begging for this additional clarity, and the Proposal responds to those requests.

Third, it requires a “top down” approach to the audit, starting with company-level controls (which may include the all-important “tone at the top”), down through significant accounts, significant processes, and finally to the individual control level. This will bring the type of quality to the auditor’s process that will, ultimately result in much more reliable conclusions.

Fourth, the Proposal articulates certain deficiencies that are, *per se*, at least a significant deficiency if not a material weakness. These include an evaluation of the effectiveness of the audit committee in its role as overseer of the company’s financial reporting. I understand that this will be a highly controversial point, and I look forward to seeing comments. In my mind, however, an audit which ignores the significant role that an audit committee *should* play as the company’s ultimate “internal control” would fall quite short of the goal of providing investors with reliable conclusions.

Fifth, the Proposal strengthens the responsibility to report certain findings ~ in writing, and with respect to significant deficiencies and material weaknesses, directly to the audit committee. This is necessary to both instill accountability within the process, and to recognize the pivotal role that audit committees must play in ensuring reliability of financial reporting.
Lastly, the Proposal strikes, in my opinion, the appropriate balance between audit activities that may be “nice to do,” and those that are essential to rendering a reliable opinion and for which the costs are outweighed by the long-term benefits to the company.

I note/re-emphasize that in our Release of this Proposal, we will be asking a number of specific, pointed questions (some of which address the issues that I’ve highlighted). I urge commentators to take these questions seriously. We really do want to know whether we’ve struck the balance that we’ve intended.

I would also like to acknowledge the incredible work of Doug Carmichael, Tom Ray and Laura Phillips. This is [as others have pointed out] the first standard proposed by this Board. You have exhibited tremendous patience with our almost obsessive need to get this one right, and tolerance for the learning curve that I know I, as one board member, have been on. I can honestly say that I don’t believe there are three other people on Earth who could have done what you have done, with the quality and thoroughness that you have done it. Thank you.